# Moving Forward

## Canada Lands Company Limited
## 2011–2012 Annual Report

Canada Lands Company Limited
Société immobilière du Canada Limitée

Canada

# Who We Are

Canada Lands Company Limited (CLCL) is an arm's-length, self-financing federal Crown corporation, which reports to the Parliament of Canada through the Honourable Rona Ambrose, Minister of Public Works and Government Services. It is a *Canada Business Corporations Act* corporation listed in Schedule III, Part 1 of the *Financial Administration Act* and is an agent of Her Majesty. The Company has one wholly-owned active subsidiary:

- Canada Lands Company CLC Limited (CLC), a non-agent Crown corporation, which carries out the Company's core real estate business in all regions of Canada, and which owns and operates Canada's National Tower (the CN Tower).

CLCL also holds shares in trust for Her Majesty, in right of Canada, of two other Crown corporations:

- Old Port of Montréal Corporation Inc. (OPMC), an agent Crown corporation, which is responsible for redeveloping the Old Port of Montréal, and which reports to Parliament as if it were a parent Crown corporation; and
- Parc Downsview Park Inc. (PDP), an agent Crown corporation, which was incorporated in 1998 to manage and develop the former Canadian Forces Base Toronto lands as Downsview Park, and which reports to Parliament as a deemed parent Crown corporation.

# What We Do

CLCL optimizes the financial and community value of strategic properties no longer required for program purposes by the Government of Canada. It works through its CLC subsidiary to purchase properties at fair market value, then holds and manages or else improves and sells them, in order to produce the best possible benefit for both local communities and the Company's sole shareholder, the Government of Canada. CLCL has, since 1995, distributed almost $432 million to its sole shareholder as dividends, cash acquisitions and note repayments.

# Why We Do It

The Company's activities ensure that government properties are redeveloped or managed in accordance with their highest and best use, and that they are harmoniously reintegrated into local communities to meet the needs of Canadians and provide them and their families with inspiring and sustainable new neighbourhoods in which they can live, work and play.


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# Letter to the Minister

The Honourable Rona Ambrose,
Minister of Public Works and Government Services Canada,
Ottawa, Ontario

**Honourable Minister:**

It is my privilege to provide you with the annual report of Canada Lands Company Limited for the fiscal year ended March 31, 2012.

As set forth in its mandate, Canada Lands continues to work to optimize the financial and community value of strategic properties that are no longer required for program purposes by the Government of Canada.

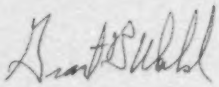
The performance results and project highlights enclosed in this report detail the Company's results in 2011–2012, which was another highly successful year.

The Company brings strategic value to surplus government properties in a myriad of ways. In 2011–2012, the Company made tremendous progress on a number of it's existing projects. In particular, Canada Lands proudly contributed two new world-class attractions to Canadian tourism: EdgeWalk at the CN Tower and the groundbreaking for Ripley's Aquarium of Canada, located at the base of the CN Tower.

I am also pleased to report on the progress and positive reception that the Montréal's New Harbourfront initiative has received. As master developer of five federal properties in the harbourfront area, we are proud that the Government of Canada has entrusted the Company to redefine the paradigm of Montréal's historic waterfront. This project will improve the quality of life in Montréal for residents and visitors alike.

During the coming fiscal year, Canada Lands will continue to move forward along its path to greater innovation. The Company has established a record of excellence in the orderly disposition and management of selected strategic properties. We intend to expand on that record in 2012–2013 by actively seeking to identify new challenges, by exploring cutting-edge business practices and by creating greater value for our stakeholders in alignment with our corporate vision, mission and values.

We are grateful for the support that you have demonstrated in helping us to fulfill our mandate. In 2012–2013, I look forward to sharing more exciting milestones with you as the Company continues to do what it has always done best: create value for value from excess Government of Canada assets.



**Grant B. Walsh**
**Chairman**
**Board of Directors**
Canada Lands Company Limited
Canada Lands Company CLC Limited

# Message from the Chairman

## How to create lasting value

A successful organization is a result of the effective implementation of strategy and the enthusiastic effort and attitude of good people. The formula for success is effort plus resources times attitude. *Success = (Effort + Resources) Attitude.* Thus it is with Canada Lands Company. We are well positioned for success.

In my role as Chairman of Canada Lands Company Limited, it has been my privilege to participate in the initiative that makes this formula true. We provide strategy and resources to good people who deliver results with enthusiasm. It is our diligent staff across the country, our talented senior leadership team and our capable Board of Directors that together have produced a year of exceptional results.

The Company implemented a renewed corporate strategic direction in order to increase operational efficiency and move forward with our vision for future growth. The success of this renewal was the result of tremendous effort, introspection and discussion on the part of the entire organization, which I believe is also a direct reflection of our commitment to corporate governance and results orientation.

The impetus for this transition was the long-term interests of Canada Lands, the Government of Canada as its shareholder, and the many communities in which CLC's projects leave a lasting legacy. As an organization, we are continually seeking innovation in determining how we can best achieve our mandate of optimizing the financial and community value from strategic properties no longer required by the Government of Canada.

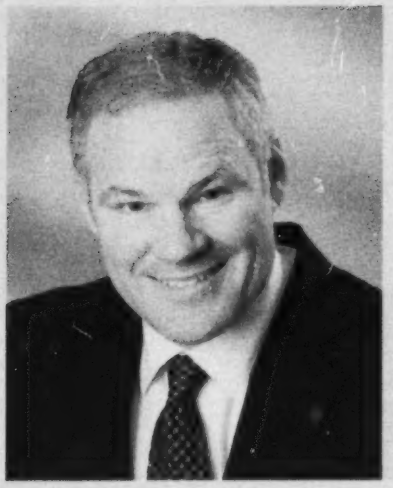
To date, the Company has contributed over $1 billion to the Government of Canada as payment for properties, elimination of carrying costs, payment of taxes, and declaration of dividends. This is in addition to the $7 billion in development expenditures that CLC has stimulated for all past and current projects.

The Board of Directors is tasked with ensuring effective leadership, approving strategy, providing operational oversight, and performing the audit function. This year, in addition to finalizing the renewed strategic direction, the Board moved to maintain steady leadership through the retention of Mark Laroche as President and CEO for another five-year term, as well as the reappointment of Wayne MacIntosh to the Board for another four-year term. We are very pleased with our deliberative team.

In this annual report, you will learn how Canada Lands Company is creating lasting value for both the Government of Canada and its citizens. From our environmentally sustainable, internationally lauded development process to the many different civic legacies we are creating in communities from coast to coast, I hope you will take the time to read this report and learn more about the vision, mission, values and strategy of Canada Lands Company and about some of its projects that embody them.

Success equals effort plus resources times attitude. We applaud the Canada Lands team for delivering positive results to our shareholder with enthusiastic effort.

**Grant B. Walsh**
**Chairman**
**Board of Directors**
Canada Lands Company Limited
Canada Lands Company CLC Limited



# Message from the President

## Moving forward

Since our inception in 1995, Canada Lands Company (CLC) has been clearly focused on a single goal: optimizing the financial and community value of strategic properties that are no longer required by the Government of Canada.

The nature of our mandate presents unique challenges. CLC's corporate mission requires us to perpetually innovate, constantly finding new solutions only to immediately consider how we can then improve on them.

This is why it is no coincidence that, despite enjoying one of our most successful years on record, CLC is not slowing down. We have restructured the Company to increase corporate efficiency; we completed the transition of our accounting practices to International Financial Reporting Standards; and we are now engaged in new and exciting projects.

In my fifth year as President and CEO of the Company, I am proud to say that excellence in what we do is not an option but a commitment. Since its inception, CLC has returned almost $432 million in cumulative distributions to the Government of Canada in the form of dividends, upfront payments and note repayments for properties.

From Chilliwack, British Columbia to St. John's in Newfoundland and Labrador, CLC's projects have received recognition from both the industry and the public for their innovation and success. CLC introduced elements of new urbanism into these projects. These elements have enhanced their livability and pedestrian access. In addition, CLC was among the first developers in Canada to pursue and achieve certification in LEED-ND (Leadership in Energy and Environmental Design – Neighbourhood Development) for several of its projects.

Our management acumen was highlighted this past year by the successful sale of the Metro Toronto Convention Centre Complex and our introduction of two new international tourist attractions in the heart of Toronto, namely EdgeWalk at the CN Tower and Ripley's Aquarium of Canada.

Over the past 17 years, CLC has forged a positive and sustainable legacy – financial, environmental and civic – in the communities we have helped to develop. The Company is relatively small, but our goals are ambitious.

This past year, our projects have engaged and captured the imagination of the public more directly than ever before. We are quite literally planning, shaping and developing the places Canadians live, work and play across the country, from Montréal's harbourfront and Toronto's downtown core to Alberta's booming urban centres and Greater Vancouver's commercial areas.

This marks the fourth year that I've had the privilege to write an introduction for the Company's annual report, and each time it seems I am able to share yet more exciting news. Canada Lands Company has proven itself to be a successful organization. As the saying goes: striving to be the best is not a destination, it is a continuous journey.

We want to lead, not follow. Seventeen years from where we began, it is important to remind ourselves that we are still moving forward.

**Mark B. Laroche**
**President and CEO**
Canada Lands Company Limited
Canada Lands Company CLC Limited

# Board of Directors

**GRANT B. WALSH, MBA, C.Dir**
**CHAIRMAN**

Grant B. Walsh holds a master of business administration in finance and marketing from Southern Illinois University. Since 2007 he has served as Chairman of Walsh Delta Group, a consulting firm specializing in strategic thinking, performance improvement and talent development. From 2005 to 2007 he served as an executive-in-residence at the DeGroote School of Business at McMaster University. He is a past President of St. Peter's Health System in Hamilton and former Executive Vice-President of ServiceMaster Company. Mr. Walsh has served as Chairman or Director of numerous organizations, including Medifocus Inc., the Cleveland Clinic Canada Ltd., the Hamilton Philharmonic Orchestra and the Royal Botanical Gardens in Burlington.

Mr. Walsh is a member of the Institute of Corporate Directors, the ADR (Alternative Dispute Resolution) Institute of Canada and the ADR Institute of Ontario.

**MARK B. LAROCHE, ing., MBA, C.Dir**

Mark B. Laroche is President and CEO of Canada Lands Company. Mr. Laroche holds a master's degree in business administration from Concordia University, and a civil engineering bachelor's degree from the Royal Military College of Canada. Mr. Laroche is also a Chartered Director. Prior to joining the company, he held senior positions in several municipalities, including as Chief Administrative Officer. Mr. Laroche has served as a Director on several not-for-profit boards.

**W. MICHAEL EVANS, B.ENG, MBA**

W. Michael Evans is President of Atlas Development Corporation, a private commercial real estate development company active throughout Western Canada with its head office in Calgary. Atlas currently owns and manages 1.2 million ft² of industrial, office and retail space. He has a degree in Engineering from McGill University and an MBA from the Ivey Business School at the University of Western Ontario.

## LLOYD S.D. FOGLER, Q.C.

Lloyd S.D. Fogler is a senior partner at Fogler, Rubinoff LLP, Barristers and Solicitors, in Toronto. He is past chair and current director and honorary officer of both Mount Sinai Hospital and Mount Sinai Hospital Foundation. He is also a past trustee, and now an honorary trustee, of the board of trustees of the Royal Ontario Museum. Mr. Fogler holds a bachelor of commerce from the University of Toronto and a bachelor of laws from Osgoode Hall Law School and was appointed Queen's Counsel in 1970.

## CLINT HAMES

Clint Hames has a long history of public service. He was the director of vocational and employment services with the Chilliwack Society for Community Living from 1975 to 1993. In 1990, he was elected as a city councillor and subsequently served as Mayor of Chilliwack from 1999 to 2008. His business experience includes positions as Vice-President and Chief Operating Officer of Pacific Developmental Pathways Ltd. and Vice-President of Clarion Business Services Ltd. He is also President of Hames & Associates Consulting Ltd., a company he founded in 1993. Mr. Hames was awarded the Queen Elizabeth II Golden Jubilee Medal for community service in 2003.

## WAYNE MACINTOSH, CA

Wayne MacIntosh, a chartered accountant, was an energy industry executive in Nova Scotia, and prior to that Director of the Financial Management Program at the Cape Breton YMCA. Mr. MacIntosh was also a partner for over 20 years at Grant Thornton LLP, where he provided financial management and counselling services across eastern Nova Scotia to a wide range of businesses and government clients.

## ALANA MCPHEE, B.COMM., LL.B.

Alana McPhee is a Senior Vice President with Macquarie Group Limited, a global provider of banking, financial, advisory, investment and fund management services, and was formerly a corporate securities law partner with Davies Ward. She served as Director and Secretary of the Women in Capital Markets Association and was previously on the Board of Trustees of the Toronto International Dance Festival. Ms McPhee obtained a bachelor of laws degree from Dalhousie Law School and a bachelor of commerce degree in finance and marketing from St. Mary's University.

## LOUISE N. PELLETIER, BA, LL.B, LL.M

Louise Pelletier is Vice President, Legal Affairs for Ivanhoe Cambridge, one of the ten biggest real estate companies in the world. Mrs. Pelletier is assigned to the investment team and is responsible for legal matters in several of over 15 jurisdictions where the company is active. She is a member of the Québec Bar and of the Law Society of New Brunswick.

# Corporate Governance

## Commitment to continuous improvement

CLCL's commitment to proactively improving its governance practices and the transparency of its operations has been instrumental in its success. These improvements help to ensure that the Company's robust governance framework remains on course and current with CLCL's operational direction as the Government of Canada's real estate development and asset management Crown corporation.

### Board Committees and their Roles

All of the Board's committees are composed of no fewer than three directors, all of whom are neither officers nor employees of the Company or any of its affiliates (except for the President and CEO, where applicable). Although the Board may delegate various duties to the committees, each committee remains under the direction of the Board and each committee's ultimate responsibility is to report to the Board and, where necessary, to seek its approval.

Since most board members expressed interest and commonly attended all committee meetings, a more efficient structure was adopted – the Committee of the Whole meeting concept. Through this structure, committee discussions are integrated into the board agenda. Committee items are chaired by the committee's chair, who is the subject matter expert. If action is required, the Board's Chair guides the action as a Board decision, rather than a committee recommendation to the Board. The Audit Committee was the only committee that continued to meet separately, with most board members in attendance.

### Governance Committee

The main objective of the Governance Committee is to optimize the effectiveness of the Board in directing and managing the business and affairs of the Company. The Committee achieves this objective by continually reviewing and striving to improve the Board's corporate governance processes, guidelines, structures and practices and by making recommendations to the Board thereon. Such includes reviewing Company policies and procedures and the terms of reference and composition of Board committees, as well as making recommendations on Governor in Council appointments. The Committee is also responsible for ensuring the orientation of new board members, as well as the ongoing training, education, and evaluation of the Board and its Directors.

### Human Resources Committee

The Human Resources Committee is mandated to review, report and, when appropriate, provide recommendations to the Board of Directors regarding human resources matters of the Company. The Committee ensures that appropriate corporate policies and programs relating to human resources are in place to attract and retain the quality of personnel required to meet the Company's business objectives.

The Committee ensures that the Company's compensation programs reward employee performance and create shareholder value. The Committee also monitors social and public issues, such as bilingualism, pay equity and employment equity. It ensures that the Company's policies and programs comply with regulatory requirements affecting human resources and that professionals are engaged by the Company to assist in the administration of the Company's compensation programs and the investment of the Company's pension plans funds.

### Audit Committee

The Audit Committee advises the Board on the soundness of the financial management of the Company, and assists the Board in overseeing internal control systems, financial reporting, risk management and the internal and external audit processes. In the case of the Company undergoing a special examination, the Committee reviews and approves the plan for the special examination, reviews the report of the findings of the examiner on completion, and advises and makes recommendations to the Board of Directors with respect thereto. It also has the authority to investigate any activity of the Company, and all employees are obliged to cooperate with any such investigation.

### Investment Committee

The Investment Committee provides advice and guidance to management on major projects identified by the Board from time to time. This past fiscal year, the Committee was actively involved in the following Toronto projects: the launch of the EdgeWalk at the CN Tower; the development of the vacant lands at the base of the CN Tower for the construction of an aquarium; and the asset sale of the Metro Toronto Convention Centre Complex. The Committee also received updates regarding transactions, including in connection with the Montréal's New Harbourfront initiative, and made recommendations to the Board regarding further actions and decisions.

### Ad hoc Legal Affairs Committee

The Ad hoc Legal Affairs Committee's mandate is to review legal matters concerning the Company. This includes acting as a resource to the Company's Chief Legal Officer, as requested, with legal, regulatory and government policy matters (including major claims and litigation) that could have a material impact on the Company's financial

statements. It also includes reviewing the Company's policies, procedures, practices and strategies regarding legal matters, as well as reviewing the Company's list of external counsel law firms.

### Board Community Outreach

Although Board meetings are normally held in Toronto, the Company's head office location, directors may, on occasion, meet in other cities across Canada in order to allow board members to familiarize themselves more fully with the Company's various projects and the communities where the projects are located, as well as to meet with local stakeholders in those communities. For this fiscal year, the Board held its annual strategic retreat in October 2011 in Montréal in connection with the Company's new harbourfront project, an important asset and development project. In addition, regional Board representatives met with Ministerial officials, including recently in Calgary at the Company's Currie Barracks project.

### Director Continuing Education

As part of board governance best practices, directors attend continuous learning events and education sessions that enhance their skills, performance and contributions to the Board of the Company. A number of governance courses are offered by the federal government through the Canada School of Public Service, and board members are encouraged to attend such courses as they deal with the role of the director of a Crown corporation, as well as with understanding the government environment and its impact on Crown corporations. To complement these programs, board members may elect to attend industry-related courses and topic-specific seminars that are relevant to the Company, such as construction financing and enterprise risk management, to name two taken. Directors demonstrate their commitment to continuing and ensuring that best practices in the field of governance are met by the Board and the Company.

### Director Attendance and Compensation

There were six CLCL Board meetings during the fiscal year. Attendance at board meetings was 100% by the directors, either in person or by phone. With the implementation of the Committee of the Whole concept, committees met during each of the board meetings.

The compensation for the Chairman and Directors is set by the Governor in Council and consists of annual retainers of $9,400 for the Chairman and $4,500 for Directors, as well as a per diem rate of $375 for both the Chairman and Directors ($250 for teleconference meetings).

### Board and Committees Composition

| | Canada Lands Company Limited ("CLCL") | | | | Canada Lands Company CLC Limited ("CLC") | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Directors** | **Board** | **Human Resources** | **Audit** | **Governance** | **Board** | **Human Resources** | **Audit** | **Governance** | **Investment** | **Legal Affairs (ad hoc)** |
| Walsh, Grant* | Chair | | | Chair | Chair | | | Chair | | |
| Fogler, Lloyd | X | | X | X | X | | X | X | | Chair |
| McPhee, Alana | X | | | X | X | | | X | X | X |
| Pelletier, Louise | X | Chair | X | X | X | Chair | X | X | | |
| Evans, Michael | X | X | | X | X | X | | X | X | |
| MacIntosh, Wayne | X | X | Chair | X | X | X | Chair | X | | |
| Haines, Clint | X | | | Vice Chair | X | | | Vice Chair | Chair | |
| President and CEO | Attends each meeting | Attends each meeting | Attends each meeting | Attends each meeting | X | X | Attends each meeting | X | X | X |

* Chairman is ex-officio member of all committees. Pursuant to section 5.01 of the By-Laws, the Chairman of the Corporation shall be invited to and can attend all meetings of all committees of the Board and be heard at such meeting, but will not vote or be included for determination of a quorum.

# Enterprise Risk Management and Internal Controls

## An organized and disciplined approach

In keeping with its Vision, Mission and Values, the Company continues to place a strong emphasis on its enterprise risk management objectives and internal controls environment. The Company is committed to embedding and maintaining a culture of compliance in relation to the assessment and mitigation of risks, whether financial, legal, socio-political, reputational or otherwise, through an effective risk management program that includes corporate accountability and established processes.

The CLC risk register and resulting action plans are updated periodically as part of CLC's risk reporting strategy to the Board of Directors. This ensures a disciplined and organized risk management approach, so that policies, guidelines, processes and practices are defined and formalized across the Company.

### Risk Management Activity

The risk management function addresses the following three broad types of enterprise risk for the Company:

- business/strategic risks (changes in legislation, regulations, compliance, people risks, organizational structure and business processes);
- operational and hazard risks (business continuity, people risks, insurance, project management, documentation and records, security and IT); and
- financial risks (financial targets, budgets, financial monitoring and internal controls).

Managing and monitoring risk at the project level remains one of the Company's key objectives, and oversight is being extended to cover major projects and program delivery risks. As well, best practices in risk management and controls were implemented in the analysis of opportunities, including in the formal launch of the Company's social media program in the fiscal year.

Risk management and internal control initiatives completed during the 2011-2012 fiscal year included:

- Completion of property risk exposure assessments for CLC's insurable values, form of valuation (replacement cost, actual cash value or demolition) for property assets, business interruption/rental income insurance and vacant land, to help ensure the Company's property and liability insurance program meets CLC's needs cost-effectively.
- Completion of a comprehensive update of CLC's detailed risk register, including all businesses.
- Completion of conversion from Canadian Generally Accepted Accounting Principles (GAAP) to International Financial Reporting Standards (IFRS) as at March 31, 2012, accompanied by one-year comparative IFRS information.
- Completion of the physical security review at the CN Tower that addressed existing security measures, including physical protection system elements.

### Internal Audit Activity

Internal audit planning is based on comprehensive risk assessments, validation and refreshing of CLC's current detailed risk register for high-risk areas, as well as for those areas of concern to senior management and the Board. The most recent three-year internal audit plan was completed in 2011-2012 with an entity level controls audit.

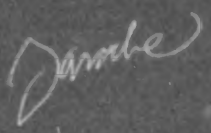
The Company issued a request for proposal for an internal auditor toward the end of the fiscal year, and Ernst & Young (E&Y) was subsequently renewed as CLC's internal auditor. The Company is finalizing the next three-year internal audit plan with E&Y.

# Balanced Scorecard

## A balanced approach that has yielded strong results

Since 1997, CLC's balanced scorecard approach to doing business has enabled the company to pursue both financial and non-financial objectives with equal consideration. The scorecard has 33 organizational performance targets, measured by 69 metrics. Each financial and non-financial target pertains to one of six key objective areas: engaging communities, developing sustainably, valuing people, managing the environment, contributing to society, and strengthening business operations.

In order to continually generate innovative solutions, CLC refined and enhanced the balanced scorecard in 2009–2010 in line with best practices. The scorecard today reflects the most relevant, meaningful and measurable economic, social and environmental performance targets, which are material to CLC's external and internal stakeholders.



**Mark B. Laroche**
**President and CEO**
Canada Lands Company Limited
Canada Lands Company CLC Limited

### Engaging Communities/Stakeholders

**OBJECTIVE:**
Listen to communities/stakeholders to understand their needs and create value for them.

| TARGET | METRIC(S) | 2011–2012 FISCAL YEAR END RESULT |
|---|---|---|
| Undertake shareholder consultation on all new development projects – prior to CLC acquiring title (consult with federal government departments, elected officials, etc.) | Number of new development projects where shareholder consultation has been undertaken prior to CLC acquiring title | **No new properties acquired** |
| | Percentage of new development projects where shareholder consultation has been undertaken prior to CLC acquiring title | |
| Undertake stakeholder consultation meeting(s) with the municipality, community groups, and/or the general public on all new development projects – prior to CLC finalizing the development vision for properties and obtaining municipal approvals | Number of new development projects where this has been done | **4 projects**<br>• **Griesbach-Central Park, Edmonton**<br>• **Rebecca Street, Oakville, Ontario**<br>• **3621 Dufferin Street, Toronto**<br>• **New Harbourfront, Montréal** |
| | Percentage of new development projects where this has been done | **100%** |
| Achieve a minimum satisfaction score of 75% for CLC engagement approach in all new development projects | Average satisfaction score for new projects based on community consultation comments cards or website questionnaire prior to submission of application for municipal planning approval | **4 projects**<br>• **Griesbach-Central Park** – no formal feedback sought<br>• **Rebecca Street** – no formal feedback sought<br>• **3621 Dufferin Street** – n/a (meeting was held by the local elected councillor)<br>• **New Harbourfront** – no formal feedback sought |

# Balanced Scorecard

## Developing Sustainably

**OBJECTIVE:**
Create environmentally sustainable neighbourhoods and buildings in line with urban planning best practices

| TARGET | METRIC(S) | 2011-2012 FISCAL YEAR END RESULT |
|---|---|---|
| All new development projects and owned and operated buildings achieve third-party accepted equivalences to green certification (e.g. LEED Building, LEED ND, BOMA) | Number of projects achieving this | 2 out of 3 new projects |
| | Percentage of projects achieving this | 67%<br>• **Griesbach** – Stages 6B, 8A, 13 and 14 – not assessed, but all complied with City of Edmonton Smart Choices initiative<br>• **Les Bassins (Montréal)** – commenced certification process for LEED ND<br>• **Currie Barracks (Calgary) – Phase 1** – LEED ND certified |
| Design access to both planned and existing public transit for 75% of residential units in all new residential or mixed-use development projects | Number of residential units within a five-minute walk from a planned or existing public transit stop (measured at time of municipal planning approval) | 2,105 residential units<br>• **Griesbach** – Stages 6B and 8A – 35 of 35<br>• **Les Bassins** – 1,900 of 1,900<br>• **Currie Barracks – Phase 1** – 210 of 270 |
| | Percentage of residential units achieving this | 99.5% |
| Optimize land use efficiency (density) in all new development projects | Percentage of projects receiving municipal planning approvals with a density of residential units higher than the average within 250 metres of the project | 100%<br>2 projects<br>• **Griesbach** – Stages 6B and 8A – 16.6 uph versus 14 uph<br>• **Currie Barracks – Phase 1** |
| Optimize livability of all new development projects receiving municipal planning approvals by designing for public open space and a mix of housing forms and pricing levels | Percentage of projects with a mix of at least three different housing forms | 100%<br>2 projects<br>• **Griesbach** – Stages 6B and 8A – ducklet, garage suites, detached small lots<br>• **Currie Barracks – Phase 1** – single-family urban estate, semi-detached, street-oriented townhouses, garage suites, carriage houses, townhouses with garage suites, apartments and an innovative multi-family site with a mix of product types and smaller unit sizes |
| | Percentage of projects with more public open space than municipal requirement and improved to a level above municipal requirements | 100%<br>2 projects<br>• **Griesbach** – Stages 6B and 8A – open space exceeding municipal requirement<br>• **Currie Barracks – Phase 1** – two completed parks, Valour Park and Victoria Cross Park, designed to a standard in excess of Calgary municipal requirements |
| | Percentage of projects targeting various pricing levels (through housing form, quality and/or unit size) | 100%<br>2 projects<br>• **Griesbach** – Stages 6B and 8A – various pricing levels through diversity of housing types<br>• **Currie Barracks – Phase 1** – various pricing levels through a diversity of housing types |

## Valuing People

**OBJECTIVE:**
Strive to become an employer of choice by 2012.

| TARGET | METRIC(S) | 2011-2012 FISCAL YEAR END RESULT |
|---|---|---|
| Improve overall employee satisfaction by 5% by the end of 2011-2012, using 2009-2010 as the base fiscal year (base result for real estate operating divisions and corporate departments was 72.8% and base result for CN Tower was 69.8%). | Total percentage level of satisfaction based on survey results for corporate departments and real estate operating division employees | Employee engagement survey was postponed due to organizational review. |
| | Percentage change from 2009-2010 levels | |
| | Total percentage level of satisfaction based on survey results for CN Tower employees | |
| | Percentage change from 2009-2010 levels | |
| Strive for zero harm among workers and visitors. | Recordable critical injury frequency for employees and visitors at owned and operated buildings | No critical injuries |
| Provide training and education opportunities for employees. | Percentage of full-time employees receiving training and educational assistance | 87% of company employees are recipients |
| | Dollars spent on training and educational assistance (average per full-time employee) | $467 average per employee |
| Maintain voluntary employee turnover rate at 5% for real estate and corporate operating divisions. | Full-time voluntary turnover percentage for fiscal year | 12.7% |
| Maintain voluntary employee turnover rate at 4% for CN Tower operating division. | Full-time voluntary turnover percentage for fiscal year | 5.5% |

# Balanced Scorecard

## Managing the Environment

**OBJECTIVE:**
Manage resources responsibly and respect the environment.

| TARGET | METRIC(S) | 2011-2012 FISCAL YEAR END RESULT |
|---|---|---|
| Reduce energy use in CLC owned and operated buildings | Total energy use in kilowatt hours (kWh) consumed | (CN Tower only) 11,869,430 kWh |
| | Total energy use in kilowatt hours (kWh) consumed per square foot | (CN Tower only) 4.97 kWh/ft² |
| | Percentage change in energy use from previous fiscal year per square foot | (CN Tower only) 2.2% reduction |
| All new buildings in development projects constructed to independent energy efficiency standards (ensure through inclusion in contracts with site purchasers where necessary) | Number of new buildings meeting these criteria | 5 new projects<br>• **Les Bassins** – 1,800 of 1,800 units LEED-ND certified<br>• **Pleasantville (St. John's, Newfoundland)** – 21 of 21 units<br>• **Currie Barracks** – 62 of 62 units have been built to green certification<br>• **Griesbach** – 190 of 190 units<br>• **Garrison Crossing (Chilliwack, B.C.)** – 136 of 136 units |
| All refurbished buildings in new development projects renovated to improve energy efficiency | Number of refurbished buildings meeting these criteria, based on an energy audit<br>Percentage of refurbished buildings achieving this | No new projects |
| Divert at least 85% (by weight) of demolition waste from landfill | Total amount of demolition waste diverted from landfill (by weight) | 3,510 tonnes |
| | Percentage of waste (by weight) diverted | 85.8% |
| Divert at least 60% (by weight) of waste from landfill for owned and operated buildings | Total amount of waste diverted from landfill (by weight) | (CN Tower only) 193 tonnes |
| | Percentage of waste (by weight) diverted | (CN Tower only) 75% |
| Adopt best practices for stormwater management in all new development projects | Number of projects receiving municipal approvals for using at least four identified best practices and/or Low Impact Development (LID) site design strategies | 2 projects<br>• **Griesbach** – stages 6B, 9A and 14 – includes: retention of existing trees, erosion and sedimentation management plan; tree lined street designs; grassed boulevards; reduced building setbacks along street frontages<br>• **Currie Barracks** – **Phase 1** – includes: rainwater harvesting; use of cisterns; infiltration trenches; underground storage; extensive rain gardens; permeable pavement; bio-retention; adoption of landscape code for private lots to ensure control of stormwater and plant diversity; preservation of existing trees and extensive planting of new vegetation |

## Managing the Environment

**OBJECTIVE:**
Manage resources responsibly and respect the environment.

| TARGET | METRIC(S) | 2011–2012 FISCAL YEAR END RESULT |
|---|---|---|
| Reduce water consumption in CLC owned and operated buildings | Total water consumption (volume) | (CN Tower only) 71,178 $m^3$ |
| | Percentage change from previous fiscal year | (CN Tower only) 19% increase<br>Increase in August and September 2011 due to an undetected leak in the irrigation system. |

## Contributing to Society

**OBJECTIVE:**
Create community value.

| TARGET | METRIC(S) | 2011–2012 FISCAL YEAR END RESULT |
|---|---|---|
| Up to $150,000 towards corporate philanthropy | Dollar amount spent | $129,815 (86% of $150,000) |
| Seek opportunities to create lasting legacies for all development projects | Number of acres (hectares) of public usable open space created since company inception in 1995 | 52 acres (21 hectares) |
| | Number of legacy project components celebrating Canadian heritage created since company inception in 1995 | 31 legacy project components |
| | Cumulative total dollar amount spent by CLC on legacy project components since inception in 1995 | $8.6 million |
| Cumulative projected development expenditures for CLC and site purchasers since company inception in 1995 for all past and current projects | Projected amount spent by CLC and its site purchasers | $7.2 billion |
| | Number of person-years of construction employment that these development expenditures equate to according to industry standards | 57,600 person-years of construction employment |
| Projected annual property tax contributions for all past and current projects at completion | Projected amount of increase in annual property taxes due to development by CLC and its site purchasers | $129 million |
| Provide affordable housing choices for residential development projects through sale of development lands by way of the SFRPHI program | Number of development projects where this has been done | No sales completed under SFRPHI program in fiscal year |
| | Percentage of development projects where this has been done | * Les Bassins (Montreal) – directly with a non profit housing provider |

# Balanced Scorecard

## Strengthening Business Operations

**OBJECTIVE:**
Strive to deliver strong financial results and/or efficiently alleviate the Government of Canada of surplus federal properties

| TARGET | METRIC(S) | 2011–2012 FISCAL YEAR END RESULT |
|---|---|---|
| Optimize financial value and returns paid to shareholder | Comprehensive income | $81.1 million |
| | Revenues in past fiscal year | $211.7 million |
| | Capital expenditures in past fiscal year | $46.1 million |
| | Distributions to shareholder in past fiscal year (dividends, cash acquisitions and note repayments) | $20.8 million in dividends and $17.4 million in note repayments |
| | Cumulative distributions to shareholder since company inception in 1995 (dividends, cash acquisitions and note repayments) | $431.6 million |
| Achieve a gross margin on total real estate property sales of at least 25% | Gross margin as a percentage | 28.7% |
| Achieve a gross margin on CN Tower operations of at least 60% | Gross margin as a percentage (including food and beverages and attractions) | 60.4% |
| Income tax contribution | Amount of income tax paid for past fiscal year | $42.5 million |
| | Amount of income tax paid cumulatively since company inception in 1995 | $131.5 million |
| Improve customer satisfaction for CN Tower visitors (to favourably influence attendance) | Past fiscal year satisfaction score | 67% |
| | Prior fiscal year satisfaction score | 64% |
| Contribute to reduced federal government liability for surplus contaminated sites through remediation of properties acquired by CLC | Dollar amount reduction in government liability over the past fiscal year | No new properties acquired |
| | Cumulative dollar amount reduction in government liability since company inception in 1995 | $80.2 million |
| | Cumulative environmental remediation amount spent by CLC since company inception in 1995 | $84.6 million ($52.8 million spent by CLC and $31.8 million spent by its site purchasers) |

## Strengthening Business Operations

**OBJECTIVE:**
Strive to deliver strong financial results and/or efficiently alleviate the Government of Canada of surplus federal properties.

| TARGET | METRIC(S) | 2011–2012 FISCAL YEAR END RESULT |
|---|---|---|
| Generate annual Payment in Lieu of Taxes (PILT) savings for the federal government through CLC property acquisitions | PILT savings generated for properties acquired over past fiscal year | No new properties acquired |
| | Cumulative dollar amount in annual generated savings since company inception in 1995 | $38.1 million |
| | Estimate of potential annual government PILT savings that could be realized through CLC acquisition of all identified current surplus strategic properties | $5.5 million |
| Generate annual operating and maintenance (O & M) savings for the federal government through properties acquired by CLC | O & M savings generated for properties acquired over past fiscal year | No new properties acquired |
| | Cumulative dollar amount in annual O & M savings generated since company inception in 1995 | $19.7 million |
| Convert surplus federal properties back to productive use through sale or possession to CLC | Number of properties converted back to productive use through sale or possession to CLC during fiscal year | No properties sold to CLC |
| | Total area in acres (hectares) converted back to productive use through sale or possession to CLC during fiscal year | No properties sold to CLC |
| | Cumulative number of properties converted back to productive use through sale to CLC since company inception in 1995 | 63 properties |
| | Total area in acres (hectares) converted back to productive use through sale to CLC since company inception in 1995 | 8,454 acres (3,421 hectares) |
| | CLC property acquisition rate for fiscal year (based on book value of development properties) | No new properties acquired |
| | CLC property disposal rate for fiscal year (based on book value of development properties) | 18% |

# Les Bassins du Nouveau Havre

## Transforming a historic harbourfront

Montréal, Québec

Rendering of future LEED-ND residential units at Les Bassins

Design renderings became reality this past year, as shovels hit the ground on the long-awaited redevelopment of Montréal's historic harbourfront. This transformation of one of the city's defining properties is gaining momentum, with residents starting to notice the revitalization along the Lachine Canal. In particular, anticipation is building as the Les Bassins du Nouveau Havre project continues to emerge.

Les Bassins du Nouveau Havre will be realized over a time frame of eight to 10 years. When completed, the community will consist of approximately 1,800 private residential units, including family-oriented and affordable housing. The development opened its first sales office in the last quarter of 2011, which enjoyed brisk business, with many of the 127 initial townhouse and condo units already sold.

The past 12 months also saw the project begin its first steps toward LEED-ND accreditation, as well as the start of infrastructure construction and soil rehabilitation on the site. Excavation has begun on phases one and two of the project, with the first deliveries of residential units by Développement les Bassins Inc. (Consortium Prével/Rachel-Julien) expected in the fall of 2013. Moreover, marketing for the builders' third phase of a 12-phase development will be launched in the fall of 2012, alongside construction of the first phase of the social housing project to be developed by Bâtir-son-cartier.

The Bassins du Nouveau Havre project aims to become a dense and vibrant mixed-use development that captures the spirit of Montréal's historic interior port.

Montréal's New Harbourfront initiative also made progress in its long-term plan to redevelop the Pointe-du-Moulin property, an 18.6-acre site (7.5 hectares) that consists of the historic Grain Elevator No. 5 complex with its three annexes, marine towers and conveyors.

This past summer, nearly 3,000 Montréal residents were reacquainted with the historic Silo No. 5 as public tours were jointly organized by CLC, Heritage Montréal and Parks Canada, which owns and operates the Lachine Canal.

The events proved so popular that several additional tours were offered, including a weekend when visitors were given the rare opportunity to explore the roof of the soaring Silo No. 5 complex and experience its breathtaking vistas of Montréal's waterfront and skyline.

CLC continues its analysis of this property, providing a better understanding of the site's redevelopment potential as planning continues into 2012.

# Metro Toronto Convention Centre

## Optimizing the value of a landmark asset

Toronto, Ontario

One of Toronto's landmark properties – the Metro Toronto Convention Centre Complex (MTCCC) – was brought to market in April 2011 by Canada Lands Company. The sale of the MTCCC provided a unique opportunity for prospective purchasers to acquire three distinct assets, together comprising an entire city block in Canada's largest and most economically significant metropolitan area.

The MTCCC had been owned and/or operated by Canada Lands Company since 1995. CLC consolidated its ownership interest in the 7.4-acre (2.99 hectare) site in 2008. The site included the Metro Toronto Convention Centre North Building at 255 Front Street West, the office building at 277 Front Street West and the InterContinental Toronto Centre Hotel.

Since it opened in 1964, the MTCCC has been a hallmark of Toronto's downtown core. Over its nearly 30-year history, the MTCCC has hosted more than 16,300 events, 1,554 conventions, 10,094 meetings and 50.3 million visitors – a number greater than the entire population of Canada.

CLC engaged CB Richard Ellis and TD Securities as its brokers and advisors for the marketing and sale of the MTCCC. An extensive international marketing campaign was launched in April 2011 which drew interest from 70 entities.

The transaction was complex, due to the unique nature of the asset. To assist prospective purchaser bidders to quickly comprehend the scope of the asset, CLC and its brokers were diligent in preparing the project data room, including legal summaries and third-party assessments and reports. The process followed by CLC and its brokers gave bidders the time they needed to assess the site.

On June 30, 2011, an agreement of purchase and sale was signed between CLC and Oxford Properties Group, the real estate arm of the Ontario Municipal Employees Retirement System (OMERS). The transaction closed in September 2011.

It was a major decision to sell one of the company's signature properties. The transaction, valued at nearly $238 million, was the largest in CLC's history and represented another step forward in CLC's mandate to continually find ways of optimizing the value of selected assets originally belonging to the Government of Canada.

Coverage of the sale was featured in both domestic and international media, from *The Globe and Mail* to *Bloomberg News*.

*The Metro Toronto Convention Centre Complex*

# CN Tower Base Lands

## Introducing Canada's largest aquarium

Toronto, Ontario

In August 2011, dignitaries and special guests mingled among sharks and children as CLC and Ripley Entertainment (Ripley) broke ground on the construction of the first phase of Ripley's Aquarium of Canada. National media outlets were present at the news conference as the two organizations proudly introduced Toronto's newest world-class tourist attraction.

Construction is now well underway on the aquarium, which will be operated by Ripley under a long-term land lease with CLC. The structure, located on four acres (1.6 hectares) at the base of the CN Tower, will comprise 100,000 ft² (9,290 m²), with provisions for an anticipated future expansion phase of 50,000 ft² (4,645 m²).

With a tank capacity of 5.7 million litres, the aquarium will be one of the largest in North America. When operational, the attraction will generate 300 to 350 jobs and is expected to add more than $35 million in labour income; during the first 20 years of operation, the aquarium is expected to generate more than $220 million in tax revenues for all three levels of government.

This new attraction marks another major step forward in CLC's continued commitment to the Canadian tourism industry, anchored by CLC's long-time ownership of the iconic CN Tower, Canada's National Tower.

In addition to the aquarium, CLC also made considerable progress in its initiative to bring capital improvements and architectural refinements to the gateway leading to the CN Tower from Front Street.

This $15-million redevelopment includes a new digital gateway sign, improvements to the public plaza and CN Tower plaza, new elevators within the connection between the Rogers Centre and the CN Tower, and a new canopy for the main entrance to the CN Tower. Additionally, 50,000 ft² (4,645 m²) of commercial/retail space will be developed on the west side of the site, likely within five years of the aquarium's scheduled opening in the summer of 2013. The result will be a more engaging and visible gateway that invites pedestrians along Front Street to visit several of Toronto's major tourist attractions.

After a national two-stage request for proposal process, a design by Graham Infrastructure, IBI and Kramer Design was selected that will completely transform the walkway leading to the CN Tower and future aquarium from the intersection of Front and John Streets.

Working with the Graham Infrastructure team, CLC initiated the municipal approval process and has received a positive response to the approved design from project stakeholders, including Oxford Properties, Ripley, the Rogers Centre, the ward councillor and the local business improvement area. Construction has begun on this significant renovation, with a targeted completion date of March 2013 – in time for the opening of the future Ripley's Aquarium of Canada.

*Rendering of the renovated plaza leading to the Ripley's Aquarium of Canada and the CN Tower*

# Glenlyon Business Park

## Sustainable development, sustainable success

Burnaby,
British Columbia

For more than a decade, Glenlyon Business Park has been recognized as the premier suburban business park in Western Canada, combining a beautiful natural setting with easy access to the Greater Vancouver Area. Located on 133 acres (53.8 hectares) that border the Fraser River in Burnaby, the Glenlyon site was acquired by CLC from the Canadian National Railway Company in 1995.

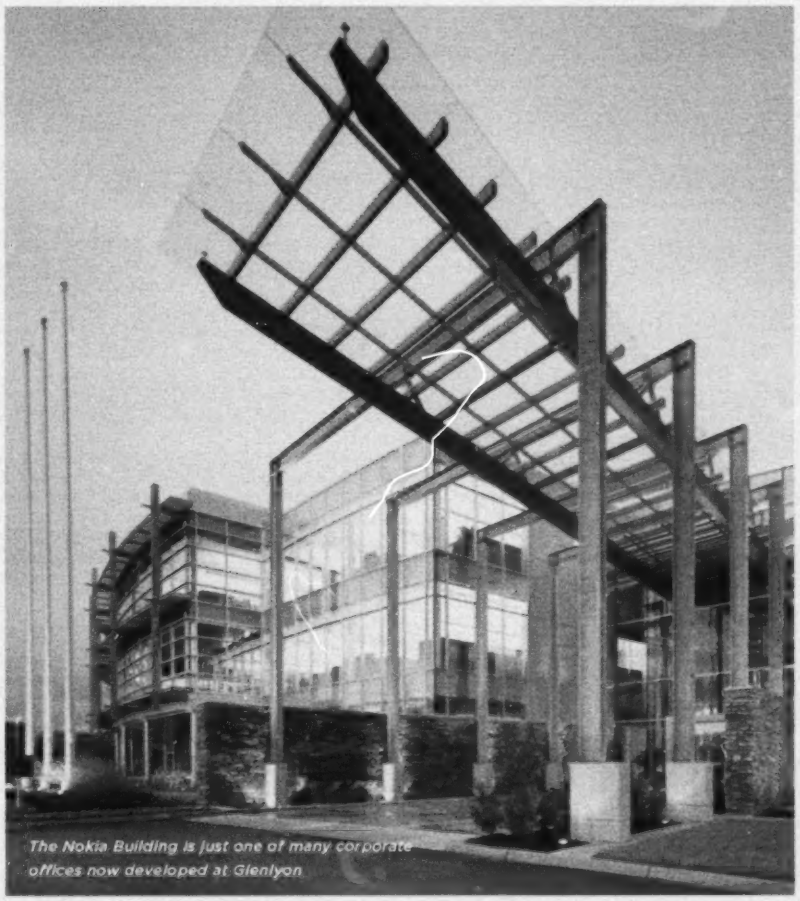
Since its opening, high-profile companies such as Nokia, Ritchie Bros., Ballard Power Systems, Future Shop/Best Buy and BC Hydro have been attracted to Glenlyon and have constructed office facilities on the property.

Currently, Glenlyon Business Park contains more than 1 million square feet of office and research and development space, and more than 4,000 people work on the site and enjoy its many amenities. To date the park has generated $125 million in revenue for CLC, and just as importantly, has generated approximately $4 million of direct annual tax revenue for the City of Burnaby.

In late August 2011, four acres (1.62 hectares) of land was sold to Pacific Natural Products (PNP). PNP's new 50,000 ft² (4,650 m²) lab and production facility is now under construction and will be completed before the end of 2012.

CLC's second office building developed for sale at 4300 North Fraser Way was sold to a local investor in 2011; current plans are to create strata office space on the property. Some of the largest transactions completed by CLC in the past year have involved land and buildings at Glenlyon.

Glenlyon Business Park still encompasses more than 65 acres of vacant land ready for development. With most of the necessary roads and services already in place, the land is expected to be developed over the next five to 10 years. The eastern entrance to Glenlyon and the final park site are expected to be completed in the next two years.



*The Nokia Building is just one of many corporate offices now developed at Glenlyon*

Throughout its constant growth, CLC has developed Glenlyon with a sustained focus on the property's sensitive ecological location. Landscaped medians and island features, many ponds and creekways, curvilinear sidewalks, large setbacks from the roadways and an extensive path system – all of these combine to create a park-like setting at Glenlyon. Since its inception and during its continued development, the property has repeatedly met the exacting standards of prospective business clients.

Glenlyon's success offers yet another example of CLC's commitment to developing projects that deliver solid financial results while providing lasting benefits to the communities in which they are located.

CN Tower EdgeWalkers

# Canada's National Tower

Toronto, Ontario

Canada's National Tower – the CN Tower – celebrated its 35th anniversary in 2011, a year highlighted by the introduction of an exciting new attraction and its recognition with several major awards. Since it opened to the public in 1976, the CN Tower has established a legacy of leading-edge innovation – and 2011 was certainly no exception.

The EdgeWalk®[1] attraction opened to the public on August 1, 2011 to an enthusiastic reception from media around the world. A hands-free walk encircling the outside of the Tower's main pod, EdgeWalk is proving to be the most thrilling attraction in the CN Tower's history, and is the first of its kind in North America. Visitors walk in groups of six while tethered to an overhead rail via a trolley and harness system. Trained guides encourage participants to push their personal limits by leaning over the edge and experiencing breathtaking views of Toronto and Lake Ontario beneath them.

Guinness World Records has awarded EdgeWalk the title of "World's Highest External Walk on a Building". During its first season, the EdgeWalk attraction exceeded all attendance projections – more than twice the expected number of visitors experienced this adventure walk atop one of the world's greatest man-made wonders.

In April 2011, *360* Restaurant, the Tower's fine dining venue, began providing its wine list on iPad®[2] devices as menus to guests in order to allow them to explore and make selections from the restaurant's extensive list. The interactive program brings detailed descriptions and ratings of more than 550 labels from the World's Highest Wine Cellar right to the fingertips of *360*'s diners. *360* Restaurant was also pleased to introduce a new wine preservation system, allowing the restaurant to offer a variety of exclusive wines by the glass from its award-winning wine list. The restaurant's extensive, carefully maintained wine selection has been a major contributor to its success, earning *360* the distinction of a Wine Spectator Best of Award of Excellence (since 1999) and the Wine Council of Ontario's VQA Award of Excellence (since 2005). The list has also contributed to *360*'s inclusion as a Distinguished Restaurant of North America (DiRONA) since 1997.

The CN Tower was named "Business of the Year" in 2011, the second time within five years it has earned this distinction. Presented annually by the Tourism Industry Association of Canada (TIAC), the National Tourism Awards recognize success, leadership and innovation in Canada's tourism industry. The award speaks to the superior tourism experience that the CN Tower offers.

The Tower was also recognized by the Engineering Institute of Canada (EIC) as an "Outstanding Canadian Engineering Achievement" in February 2012, a distinction shared by the Canadarm and the Confederation Bridge.

During 2011-2012, the CN Tower achieved attendance of 1.47 million visitors and revenues of $57.4 million, exceeding budgeted expectations by 3.3 per cent. This was a strong performance in what has continued to be a challenging business environment.

After 35 years, the CN Tower remains an iconic Canadian and Torontonian landmark. The Tower is an engineering wonder, an essential telecommunications hub, a first-class entertainment, dining and event centre, one of Canada's best-run tourism operations, and still one of the most unique structures in the world.

*The CN Tower lights up blue for United Nations World Refugee Day.*

*1 EdgeWalk® is a registered trademark of Canada Lands Company CLC Limited.*

*2 iPad is a registered trademark of Apple Inc.*

# Year in Review

CLC Chairman Grant Walsh and President Mark Larock being interviewed by CityTV on the EdgeWalk

### Achievements

- In May 2011, CLC announced the first new major tourist attraction in Toronto in the past 18 years: EdgeWalk®[1] at the top of the CN Tower. EdgeWalk was launched in August 2011 with much fanfare from local and international media, including the *Rick Mercer Report* show. Reservations for EdgeWalk filled up almost immediately.
- June 2011 saw the opening of the builder's presentation centre for the Les Bassins du Havre development in Montréal. Sales were brisk with a majority of the units sold within the first few months. The 1,600-unit mixed-use community will be built to LEED-ND standards.
- In July 2011, the CN Tower celebrated its 35th anniversary. Chief Operating Officer Jack Robinson threw out the ceremonial first pitch at a Toronto Blue Jays baseball game to kick off a week-long celebration of Canada's national iconic structure.
- In August 2011, CLC announced construction of Ripley's Aquarium of Canada. Work on Toronto's $130-million aquarium facility, situated at the base of the CN Tower, is now well underway. The attraction will be owned and operated by Ripley Entertainment, and is expected to open in the summer of 2013.
- In December 2011, the CN Tower was named "Business of the Year" by the Tourism Industry Association of Canada.
- In February 2012, the CN Tower was celebrated again, this time by the Engineering Institute of Canada (EIC), which recognized the Tower as an "outstanding Canadian engineering achievement".

**$299 million**
PROPERTY SALES

**19**
TOTAL SALES TRANSACTIONS

**357**
TOTAL RESIDENTIAL LOTS SOLD

### Transactions

- In September 2011, CLC completed one of the largest transactions in its history, with the sale of the landmark Metro Toronto Convention Centre Complex – comprised of the Metro Toronto Convention Centre, the office building at 277 Front Street West and the InterContinental Toronto Centre Hotel – to Oxford Properties Group.
- In October 2011, two sales transactions closed at Glenlyon Business Park in Burnaby, British Columbia: four acres (1.61 hectares) of land were sold to a pharmaceutical production company, and a building located at 4300 North Fraser Way was also sold.
- Also in October 2011, CLC closed the transaction for the sale of 6.2 acres (2.50 hectares) of land at Franklin Crossing to the City of Moncton, New Brunswick. The land will become part of Moncton's trail system.
- In December 2011, CLC completed the sale of four acres (1.61 hectares) of land in Chilliwack, British Columbia to the Royal Canadian Mounted Police.

1 *EdgeWalk® is a registered trademark of Canada Lands Company CLC Limited.*

# Senior Management Team

## MARK B. LAROCHE

Mark B. Laroche has been President and Chief Executive Officer of Canada Lands Company CLC Limited since July 2007, and has been renewed for an additional five-year term commencing July 2012. Mr. Laroche leads the senior management team of the company as it optimizes the financial and community value obtained from real estate properties no longer required for program purposes by the Government of Canada. Under his strategic leadership, the company has become more efficient and innovative, achieving strong financial results and winning awards of business excellence. Prior to joining the company, he held senior positions in several municipalities, including as Chief Administrative Officer. Mr. Laroche has served as a Director on several not-for-profit boards.

## ANTOINETTE BOZAC

Antoinette Bozac is Chief Legal Officer and Vice President, Corporate Affairs for Canada Lands Company CLC Limited. She advises the company's Board and senior management on corporate governance and public affairs. She is responsible for legal, litigation and regulatory matters. She served previously as the company's vice president responsible for human resources and legal affairs. She has practiced in the areas of corporate, commercial real estate, employment, competition and intellectual property law.

## CAMERON CHARLEBOIS

Cameron Charlebois is Vice President, Real Estate, Québec for Canada Lands Company CLC Limited. In this role, he combines his vast previous experience in such fields as architecture, real estate development, municipal management and business administration. As a result of his expertise, he has led the successful acquisition, development and management of the company's Québec assets. Earlier in his career, he worked as Senior Director of Development at CN Real Estate, CLC's corporate predecessor.

## JURGEN DIRKS

Jurgen Dirks is Chief Financial Officer and Vice President, Administration for Canada Lands Company CLC Limited. He brings a wealth of managerial expertise to his role, leading the finance, human resources and information technology departments of the company. He has extensive experience in the real estate and land development sectors, having previously been Executive Vice President and CFO of Canada's largest builder and developer of residential communities.

## ROBERT A. HOWALD

Robert A. Howald is Senior Vice President, Real Estate for Canada Lands Company CLC Limited. He ensures that the company continues to carefully and successfully manage the acquisition and development of its portfolio of real estate properties located across Canada. He is an experienced and seasoned executive, having served as Acting President and Chief Executive Officer of the company and, prior to that, as the vice president responsible for the eastern region's operations.

## JACK ROBINSON

Jack Robinson is Chief Operating Officer of the CN Tower. Mr. Robinson works to strengthen the Tower's position as a world-class tourist attraction. He has been with the CN Tower for over 20 years and is instrumental in maintaining positive sales and consistently strong financial performance for the Tower. His knowledge of the industry, his strong leadership and marketing skills and enthusiasm all contribute significantly to the success and innovation of the Tower's operations.

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# Management's Discussion and Analysis

For the fiscal year ended March 31, 2012

*The following Management's Discussion and Analysis should be read in conjunction with the consolidated financial statements included in this annual report.*

Canada Lands Company Limited (CLCL) through its core real estate subsidiary, Canada Lands Company CLC Limited (CLC), carries out its policy mandate "to ensure the commercially oriented, orderly disposition of selected surplus federal real properties with optimal value to the Canadian taxpayer and the holding of certain properties." This mandate was approved by the Government of Canada (the government) on reactivation in 1995. All real estate operations are carried out through CLC and are consolidated in CLCL. Discussion of financial results in this section of the annual report will occur from the perspective of CLC, even though the results are identical to those of CLCL for the 2011-2012 fiscal year.

CLCL holds the shares of Parc Downsview Park (PDP) and the Old Port of Montréal Corporation Inc. (OPMC) in trust for Her Majesty in Right of Canada. PDP and OPMC are excluded from consolidation because CLC does not have continuing power to determine their strategic operating, investing and financing policies and because PDP and OPMC have been directed by the government to report as parent Crown corporations.

## Balanced Scorecard

CLC employs a balanced scorecard approach to organizational performance management. In line with best practices, the company undertook an extensive stakeholder consultation process in 2010 to refine its balanced scorecard and ensure inclusion of those economic, social and environmental performance targets most material to its identified key external and internal stakeholders. It also integrated the implementation of the balanced scorecard into the employee incentive program for the 2011-2012 fiscal year. The company will continue to revisit and refine the balanced scorecard's targets, as necessary so the scorecard will evolve over time.

CLC's balanced scorecard currently contains 33 financial and non-financial organizational performance targets measured by 69 metrics. Each target pertains to one of six key objective areas: engaging communities, developing sustainably, valuing people, managing the environment, contributing to society, and strengthening business operations. The company's newly refined balanced scorecard is featured in its own section of this annual report.

## Governance

CLCL continues to provide bare certification of financial statements by its President and Chief Executive Officer and its Chief Financial Officer and Vice President, Administration. Due to the additional expense and resources involved, CLCL has not proceeded further with certification. CLCL will closely monitor developments in this area and assess how it can proceed.

CLCL's Board of Directors is composed of the Chairman and six directors. The Chairman and the directors are independent of management and are appointed by the Governor in Council. A new Chairman was appointed in June 2010. The board held five meetings and one strategic planning retreat during the year. The compensation for the Chairman and directors is set by the Governor in Council and consists of annual retainers of $9,400 for the Chairman and $4,500 for directors, as well as a per diem rate of $375 for both the Chairman and directors and $250 for teleconference meetings.

The board's expenses for the year ended March 31, 2012 (fiscal 2012), including travel expenses, conferences and seminars, liability insurance and annual retainers and per diems, totalled $0.5 million, which is unchanged from the prior year.

The board and senior management expenses are posted on CLC's website, www.clc.ca

# Management's Discussion and Analysis

For the fiscal year ended March 31, 2012

## Results of Operations

| (in millions of Canadian dollars) | Fiscal 2012 | Budget | Fiscal 2011 |
|---|---|---|---|
| Real estate sales | **$ 61.9** | $ 74.3 | $ 82.7 |
| CN Tower operating Revenues | **57.4** | 55.4 | 53.4 |
| Rental | **27.3** | 32.5 | 33.3 |
| Gain on sale of investment property | **61.4** | 15.0 | 11.2 |
| Interest and other | **3.7** | 4.0 | 2.1 |
| Gross revenues | **211.7** | 181.2 | 182.7 |
| General and administrative expenses | **18.8** | 22.6 | 18.9 |
| Income before taxes | **79.2** | 39.0 | 40.8 |
| Income from continuing operations | **56.2** | 25.8 | 29.5 |
| Income from discontinued operations (net of tax) | **24.6** | 8.2 | 3.6 |
| Comprehensive income | **81.1** | 34.0 | 32.8 |
| Cash inflows (outflows) before dividends and note repayments | **66.8** | 50.9 | 9.6 |

During fiscal 2012, CLC generated revenue of $211.7 million and comprehensive income of $81.1 million. Cash flow was $66.8 million before distributions (dividends and repayment of notes payable) to the Government of Canada.

### Revenue

Revenue of $211.7 million was $30.5 million above budget and $29.0 million ahead of fiscal 2011. Revenues comprised four principal sources:

**Real estate sales** of $61.9 million comprised principally sales of property developed as building lots and sold to builders of single family homes, apartments and condominiums, undeveloped land sales and buildings held in inventory that were sold. During fiscal 2012, $57.2 million or 92% of sales were generated in Western Canada at former military bases being developed for residential construction in Calgary, Alberta (Currie Barracks), Edmonton, Alberta (CFB Griesbach) and Chilliwack, British Columbia. The remaining 8% of sales were in Atlantic Canada in Newfoundland and New Brunswick.

Sales during fiscal 2012 were $20.8 million lower than 2011, which included a large land sale at the Les Bassins development in Montréal.

Real estate sales for fiscal 2012 generated gross profit, excluding general and administrative expenses and income tax, of $17.8 million, $10.4 million below fiscal 2011 due to the reduction in revenue.

**Attractions** represents revenue from the CN Tower operations including admissions, restaurants and related attractions. Attendance during fiscal 2012 of 1.5 million visitors was 2.4% ahead of fiscal 2011, despite continued weakness in the tourism and hospitality industries in the Greater Toronto Area. An increase in visitors from China, South America and Germany offset a decline in visits from the United States. The successful launch of the Edge Walk attraction during August 2011 generated renewed interest in the CN Tower and helped increase average guest spending to an all-time high of $37.55 per visitor.

CN Tower revenue of $57.4 million was $4.0 million above fiscal 2011. Correspondingly, gross profit of $17.9 million was $2.1 million ahead of the prior year.

**Rental** comprises revenue from commercial, industrial and residential properties held as investments, as well as properties located on lands held for future development across the country. Rental revenue was $27.3 million during fiscal 2012, $18.8 million of which was generated by properties located on lands held for future development. Geographically, 57% of rental revenues were generated in Western Canada, 31% in Ontario, and 12% in Atlantic Canada.

Rental revenue decreased by $6.0 million from fiscal 2011, a result attributable principally to the sale of the office tower located at 277 Front Street and the adjoining Metro Toronto Convention Centre during September of 2011.

Rental gross profit for fiscal 2012 of $5.9 million was unchanged from fiscal 2011 with the revenue shortfall attributable to the sale of 277 Front Street and the MTCC Complex properties being substantially offset by a reduction in related depreciation expense.

**Gain on sale of investment property** of $61.4 million represents the gain on sale of the Metro Toronto Convention Centre (MTCC) and the adjoining office tower located at 277 Front Street to Oxford Properties during September of 2011. During fiscal 2011, the gain of $11.2 million represented sale of an office building located in Burnaby, British Columbia.

**Interest and other revenue** of $3.7 million comprised principally interest on short-term investments. Despite lower interest rates, revenue exceeded fiscal 2011 by $1.6 million reflecting the significant positive cash flow generated by the sale of the MTCC Complex.

**General and administrative expenses** of $18.8 million were $0.1 million lower than 2011.

The Treasury Board Secretariat implemented cost savings measures throughout the federal government. As a federal Crown corporation, CLC is committed to respecting the spirit and intent of this cost containment effort. Further to cost reduction measures taken in 2009-2010, CLC undertook a strategic and operational review during fiscal 2011-2012. Recommendations were implemented in November 2011 resulting in reduction of staff, principally in Senior Management positions. Creation of shared services within the Finance, IT and Human Resources departments of Real Estate and CN Tower resulted in staff reduction and improved efficiencies.

**Restructuring cost** of $4.0 million represents the cost of severance and outplacement costs related to the organizational changes described under General and administrative expenses.

**Income from discontinued operations** of $24.6 million represents the after tax profit on six months of operating results and the sale of the InterContinental Hotel to Oxford Properties. The Hotel was sold during September 2011 along with the MTCC and office tower located at 277 Front Street. The reported income is net of income tax of $9.0 million.

## Cash Flows

Cash generated by operating and investing activities totalled $166.4 million, an improvement of $103.0 million over fiscal 2011, attributable to the sale of the MTCC Complex.

The positive cash flow was utilized to reduce the Corporation's term loan, mortgage and notes payable by a total of $117.1 million.

In addition, the Corporation paid dividends to the Government of Canada totalling $20.8 million.

# Management's Discussion and Analysis

For the fiscal year ended March 31, 2012

## Financial Condition and Liquidity

On January 27, 2004, CLC issued a $47.0 million, ten-year fully amortized first mortgage bond at 5.37%, secured by the CN Tower asset and guaranteed by CLC. The mortgage bond had a balance of $11.4 million at March 31, 2012. The bond for the CN Tower received a rating of "A" with a stable trend from Dominion Bond Rating Service Limited on May 27, 2010. CLC is no longer required to obtain updated ratings on this bond.

During April 2010, CLC increased its term loan facility to $125.0 million with four Canadian chartered banks, maturing March 30, 2013, secured by the MTCC Complex. Upon sale of the MTCC Complex during September 2011, CLC repaid the $94.0 million drawn and cancelled the loan facility.

In addition, CLC has cancelled its $70.0 million line of credit with four Canadian chartered banks. Letters of credit in the amount of $20.8 million that were issued under this line have been collateralized with interest bearing investments.

At March 31, 2012, CLC had cash of $57.4 million. The debt to equity ratio at March 31, 2012 has significantly improved to 17.1% from 56.6% at the end of fiscal 2011.

At March 31, 2012, CLC had $54.5 million in discounted notes payable issued to the federal government. These notes are unsecured obligations and are repayable on the earlier of their maturity dates or the dates on which net proceeds become available from the sale of the properties in respect of which the notes were issued. CLC estimates repayment of notes payable in the amount of $4.5 million during the fiscal year ending March 31, 2013. CLC expects to repay a total of $28.0 million of the notes outstanding during the next five years.

In the coming year, CLC anticipates capital expenditures of $85.3 million on its existing and new properties for construction, site servicing, environmental remediation and the general preparation of its land inventory for sale. Substantial expenditures are expected to be incurred at the former military bases in Calgary, Chilliwack, Edmonton and St. John's in addition to Glenlyon Business Park, Les Bassins and the New Harbourfront. CLC also anticipates property acquisitions from government departments and crown Corporations of $19.8 million, including promissory notes gross-up, of which $11.1 million will be paid by cash.

Under CLC's dividend policy, the annual dividend payment is the lower of cash balance at the end of the year less the working capital requirement for the subsequent three years or the return on equity. The return on equity is the lower of the five-year Canada Bond rate at March 31 or 3% of the shareholder's equity at March 31; however, under no circumstance is the cash balance or lines of credit available to total less than $10.0 million.

Based on the current level of cash and the existing operating line of credit, CLC expects to be able to fund all operating cash requirements and anticipated expenditures on properties for the coming year. In addition, currently contracted sales and future sales anticipated through the normal course of operations should generate sufficient cash proceeds for CLC's business needs and provide funds for distribution to the shareholder.

## International Financial Reporting Standards (IFRS) Conversion

Effective April 1, 2010, the company made the transition from Canadian generally accepted accounting principles (GAAP) for publicly accountable enterprises to International Financial Reporting Standards (IFRS).

## Risks and Uncertainties

CLCL, through CLC, manages and disposes of strategic surplus properties on behalf of the government to ensure that optimal value is realized from these assets. Optimal value recognizes financial value, economic stimulation and contribution to the quality of life in local communities where CLC conducts its business. CLC acted in a manner consistent with this mandate in fiscal 2012.

CLC has adopted a proactive approach to business and operational risk management. The mandate of CLC's risk management committee is to identify and help assess the key risks facing the company and then act to eliminate risks where possible, or mitigate, manage, monitor and finally insure those operational and hazard risks where elimination is not practical or possible. The committee is chaired by the General Manager, Treasurer, who also manages the enterprise risk management program and the corporate insurance portfolio.

In keeping with its comprehensive insurance program to safeguard its assets, protect financial interests, and target its most important operational and hazard risks, the company improved its overall insurance protection this year, while at the same time negotiating significant reductions in premiums. For its largest asset, the CN Tower, risk and loss control engineering surveys were undertaken to enhance the company's protection of assets and value. In addition, property insurance values for replacement cost coverage of the CN Tower were increased to reflect updated property appraisals.

In the past year, several risk management and internal control initiatives and enhancements were undertaken, including an entity level controls review and an annual risk evaluation and quantification of CLC's property assets, including business and rental income and vacant land, for the company's insurance program (covering hazard and operational risks) to ensure it continues to meet corporate needs and safeguards important assets.

## Future Prospects

During the year, no new properties were acquired. CLC had a land bank of approximately 1,527 acres (618.2 hectares) at March 31, 2012.

CLC is currently in negotiations with government departments and agencies regarding acquisition of a further 2,188 acres (885 hectares). As many of the individual properties potentially available for acquisition are substantial in size, ranging from 1 to 1620 acres (0.3 to 656 hectares), planning, development and reintegration of these properties into local communities will take place over a number of years. Although CLC is vulnerable to adverse changes in local real estate market conditions which can affect demand, CLC is also able to wait for improvement in local real estate markets as it has other properties for sale across Canada.

CLC's holdings and potential acquisition of properties from the government are sometimes impacted by Aboriginal land claims. CLC continues to work with the federal government to assist in establishing a process whereby such surplus lands could be sold to CLC.

Historically, the CN Tower's operations have been directly linked to the performance of the tourism sector in Toronto. The number of visitors to the CN Tower is also related to both the seasons and daily weather conditions. Recognizing and acting upon the potential of both attracting a higher percentage of Toronto's tourists and focusing less on seasonal corporate business will further enhance the performance of the CN Tower's business development initiatives. CN Tower's newest attraction Edge Walk opened to overwhelming enthusiasm from the public, exceeding our attendance and revenue expectations, and this should add to the Tower's future business performance.

The Canadian economy is expected to grow by 2.0%, and 2.8% in 2012 and 2013, respectively according to a forecast by the Bank of Canada. This economic recovery is proceeding more slowly than previously projected. Within Canada, growth is uneven with the resource based provincial economies outperforming the manufacturing and service sector provincial economies in central Canada. Presently, nearly three quarters of Canada's exports are to the United States. As the Canadian dollar is presently on par with the US dollar, the level of exports continues to be adversely affected. The Bank of Canada is anticipated to hold interest rates at 1% for the remainder of 2012, increasing to 2% by the end of 2013 according to forecasts by several major Canadian financial institutions.

# Management's Discussion and Analysis

For the fiscal year ended March 31, 2012

The Canadian housing market has shown continued strength, but increasing concern about overheated markets in Toronto and Vancouver, coupled with projected interest rate increases during 2013, point to a slowdown in demand.

CLC's major residential developments are in Alberta and British Columbia, where CLC is redeveloping the former CFB Calgary, CFB Griesbach and CFB Chilliwack where the residential market continues to show strength. In two of these projects, CLC has interim rental operations which between them generate revenue in excess of any holding costs. In St. John's, Newfoundland and Labrador, CLC is in the midst of development of Pleasantville on the site of a former military base.

CLC's recent sales activities demonstrate that there is ongoing demand for its land holdings and it can continue to create significant benefits and/or value from its property portfolio, which is diverse as to location, value, size and current or potential uses.

There remains a large inventory of surplus properties within the government's real estate portfolio. Acquiring more of these properties will enable CLC to further enhance the value it creates for the Government of Canada and to continue to fulfill its mandate of creating optimal value for the government while reintegrating properties into communities in a financially prudent and socially responsible manner.

Decommissioned military bases acquired from the Department of National Defence require major investment for site servicing, infrastructure and remediation in order to make the properties suitable for redevelopment. As CLC continues development of current holdings and starts to develop new properties acquired from the government, there will be added demand on CLC's cash resources; however, CLC will continue to make mandatory note repayments to the government in addition to the dividend payments stipulated in its dividend policy, as part of its total distributions to the government.

CLC has projected income before tax of $198.8 million for the five years ending March 31, 2017 and is expected to continue to be financially self-supporting and provide a reliable dividend stream for the Government of Canada.

# Management's Responsibility for Financial Reporting

The consolidated financial statements of Canada Lands Company Limited have been prepared by management of the corporation in accordance with International Financial Reporting Standards (IFRS).

Management maintains financial and management reporting systems which include appropriate controls to provide reasonable assurance that the corporation's assets are safeguarded, to facilitate the preparation of relevant, reliable and timely financial information, and to ensure that transactions are in accordance with Part X of the *Financial Administration Act* and regulations, the *Canada Business Corporations Act*, and the articles and by-laws of the corporation.

Based on our knowledge, these consolidated financial statements present fairly, in all material respects, the corporation's financial position as at March 31, 2012 and 2011 and April 1, 2010 and its financial performance and cash flows for the years ended March 31, 2012 and 2011.

Where necessary, management uses judgment to make estimates required to ensure fair and consistent presentation of this information.

The Board of Directors of Canada Lands Company Limited is composed of seven directors, none of whom are employees of the corporation. The Board of Directors has the responsibility to review and approve the financial statements, as well as overseeing management's performance of its financial reporting responsibilities. An Audit Committee appointed by the Board of Directors of the corporation has reviewed these statements with management and the auditor, and has reported to the Board of Directors. The Board of Directors has approved the financial statements.

All other financial and operating data included in the annual report are consistent, where appropriate, with information contained in the financial statements.

**Mark B. Laroche**
**President and CEO**

**Jurgen Dirks**
**Chief Financial Officer and**
**Vice President Administration**

Toronto, Canada
June 25, 2012

# Declaration

We, Mark Laroche, President and CEO, and Jurgen Dirks, Chief Financial Officer and Vice President Administration, certify that:

We have reviewed the consolidated financial statements of Canada Lands Company Limited for the fiscal years ended March 31, 2012, March 31, 2011 and as at April 1, 2010.

Based on our knowledge, the consolidated financial statements do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the fiscal year covered by this annual report; and

Based on our knowledge, the annual consolidated financial statements together with the other financial information included in this annual report fairly present in all material respects the financial position, financial performance and cash flows of Canada Lands Company Limited, as of the date and for the periods presented in this report.

**Mark B. Laroche**
**President and CEO**

**Jurgen Dirks**
**Chief Financial Officer and**
**Vice President Administration**

Toronto, Canada
June 25, 2012

# Auditor's Report

**Auditor General of Canada**
**Vérificateur général du Canada**

**INDEPENDENT AUDITOR'S REPORT**

To the Minister of Public Works and Government Services

**Report on the Consolidated Financial Statements**

I have audited the accompanying consolidated financial statements of Canada Lands Company Limited, which comprise the consolidated statements of financial position as at 31 March 2012, 31 March 2011 and 1 April 2010, and the consolidated statements of comprehensive income, consolidated statements of changes in shareholder's equity and consolidated statements of cash flows for the years ended 31 March 2012 and 31 March 2011, and a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility*

My responsibility is to express an opinion on these consolidated financial statements based on my audits. I conducted my audits in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

# Auditor's Report

I believe that the audit evidence I have obtained in my audits is sufficient and appropriate to provide a basis for my audit opinion.

*Opinion*

In my opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Canada Lands Company Limited as at 31 March 2012, 31 March 2011 and 1 April 2010, and its financial performance and its cash flows for the years ended 31 March 2012 and 31 March 2011 in accordance with International Financial Reporting Standards.

**Report on Other Legal and Regulatory Requirements**

As required by the *Financial Administration Act*, I report that, in my opinion, the accounting principles in International Financial Reporting Standards have been applied, after giving retrospective effect to the adoption of the new standards as explained in Note 4 to the consolidated financial statements, on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of Canada Lands Company Limited and its wholly-owned subsidiary that have come to my notice during my audits of the consolidated financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Canada Business Corporations Act*, and the articles and by-laws of Canada Lands Company Limited and its wholly-owned subsidiary.

Sylvain Ricard, CA
Assistant Auditor General
for the Auditor General of Canada

25 June 2012
Ottawa, Canada

# Consolidated Financial Statements

## Consolidated Statements of Comprehensive Income

For the year ended March 31

| (Expressed in thousands of Canadian dollars) | Note | March 31, 2012 | March 31, 2011 |
|---|---|---|---|
| **REVENUES** | | | |
| Real estate sales | | **$ 61,879** | $ 82,651 |
| CN Tower operating revenues | | **57,442** | 53,388 |
| Rental | | **27,279** | 33,280 |
| Gain on sale of investment property | | **61,441** | 11,198 |
| Interest and other | | **3,712** | 2,134 |
| | | **211,753** | 182,651 |
| **EXPENSES** | | | |
| Real estate cost of sales | | **44,095** | 54,464 |
| CN Tower operating expenses | | **39,501** | 37,569 |
| Rental operating costs | | **21,408** | 27,382 |
| General and administrative | | **18,841** | 18,896 |
| Write-down, reversals and pre-acquisition costs | | **1,156** | 77 |
| Interest and other financing costs | | **3,510** | 3,475 |
| **Other expenses** | | | |
| Restructuring cost | | **4,000** | – |
| | | **132,511** | 141,863 |
| **INCOME BEFORE INCOME TAXES** | | **$ 79,242** | $ 40,788 |
| Deferred income tax (recovery) expense | 20 | **(11,664)** | 3,307 |
| Current income tax expense | 20 | **34,744** | 7,997 |
| | | **23,080** | 11,304 |
| **INCOME FROM CONTINUING OPERATIONS** | | **56,162** | 29,484 |
| **INCOME FROM DISCONTINUED OPERATIONS** | 5 | **24,633** | 3,597 |
| **NET INCOME** | | **$ 80,795** | $ 33,081 |
| **Other comprehensive income (loss)** | | | |
| Change in fair value of cash flow hedge, net of income tax | | **(574)** | (322) |
| Net change in fair value of hedge transferred to net income, net of income tax | | **896** | – |
| | | **322** | (322) |
| **COMPREHENSIVE INCOME** | | **$ 81,117** | $ 32,759 |

*The accompanying notes are an integral part of the consolidated financial statements.*

# Consolidated Financial Statements

## Consolidated Statements of Financial Position

As at March 31

| (Expressed in thousands of Canadian dollars) | Note | March 31, 2012 | March 31, 2011 (note 4) | April 1, 2010 (note 4) |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Non-Current** | | | | |
| Investment properties | 7 | **$ 2,452** | $ 54,727 | $ 68,875 |
| Inventories | 8 | **30,410** | 29,347 | 16,889 |
| Property, plant and equipment | 6 | **96,166** | 179,247 | 179,700 |
| Trade and other receivables | 12 | **877** | – | 629 |
| Long-term receivable | 9 | **10,964** | 14,484 | 4,711 |
| Deferred income tax recoverable | 20 | **4,675** | 6,815 | – |
| | | **145,544** | 284,620 | 270,804 |
| **Current** | | | | |
| Inventories | 8 | **201,602** | 217,687 | 218,644 |
| Cash and cash equivalents | 10 | **57,428** | 28,899 | 39,696 |
| Short-term investments | 11 | **70,772** | – | – |
| Trade and other receivables | 12 | **8,353** | 14,798 | 23,840 |
| Current portion of long-term receivable | 9 | **4,442** | 6,506 | 1,078 |
| Current income tax recoverable | 20 | **3,117** | 4,013 | – |
| | | **345,714** | 271,903 | 283,258 |
| | | **$ 491,258** | $ 556,523 | $ 554,062 |

| (Expressed in thousands of Canadian dollars) | Note | March 31, 2012 | March 31, 2011 (note 4) | April 1, 2010 (note 4) |
|---|---|---|---|---|
| **LIABILITIES AND SHAREHOLDER'S EQUITY** | | | | |
| **LIABILITIES** | | | | |
| **Non-Current** | | | | |
| Term loans | 14 | **$ –** | $ 94,372 | $ 124,123 |
| Mortgage bond payable | 13 | **5,826** | 11,346 | 16,557 |
| Notes payable | 15 | **50,013** | 52,804 | 41,080 |
| Trade and other payables | 16 | **25** | 19 | 52 |
| Deferred taxes | 20 | **6,270** | 17,392 | 5,514 |
| | | **$ 62,134** | $ 175,933 | $ 187,326 |
| **Current** | | | | |
| Current portion of mortgage bond payable | 13 | **5,593** | 5,304 | 5,030 |
| Current portion of notes payable | 15 | **4,500** | 17,000 | 5,240 |
| Term loans | 14 | **–** | – | 19,000 |
| Trade and other payables | 16 | **12,493** | 16,911 | 16,301 |
| Provisions | 17 | **7,036** | 3,240 | 5,538 |
| Interest rate swap | | **–** | 457 | – |
| Income taxes payable | 20 | **1,336** | – | 480 |
| Prepaid rent, deposits and others | | **6,513** | 6,342 | 8,070 |
| | | **37,471** | 49,254 | 59,659 |
| **SHAREHOLDER'S EQUITY** | | | | |
| Capital stock | 18 | **–** | – | – |
| Contributed surplus | 18 | **145,081** | 145,081 | 145,081 |
| Retained earnings | | **246,572** | 186,577 | 161,996 |
| Accumulated other comprehensive (loss) | 18 | **–** | (322) | – |
| | | **391,653** | 331,336 | 307,077 |
| | | **$ 491,258** | $ 556,523 | $ 554,062 |

| | |
|---|---|
| Contingencies and commitments | 16, 17 |
| Operating leases | 19 |

*The accompanying notes are an integral part of the consolidated financial statements.*

On behalf of the Board

**Grant B. Walsh**

**Wayne MacIntosh**

# Consolidated Financial Statements

## Consolidated Statements of Changes in Shareholder's Equity

For the year ended March 31

| (Expressed in thousands of Canadian dollars) | Capital Stock | Contributed Surplus | Accumulated Other Comprehensive Income (Loss) | Retained Earnings | Total Shareholder's Equity |
|---|---|---|---|---|---|
| Beginning balance, April 1, 2010 | $ – | $ 145,081 | $ – | $ 161,996 | $ 307,077 |
| Change during the year | | | | | |
| Net income for the year | – | – | – | 33,081 | 33,081 |
| Dividends paid | – | – | – | (8,500) | (8,500) |
| Change in fair value of cash flow hedge, net of income tax | – | – | (322) | – | (322) |
| **Ending balance, March 31, 2011** | $ – | $ 145,081 | $ (322) | $ 186,577 | $ 331,336 |
| | | | | | |
| Beginning balance, April 1, 2011 | $ – | $ 145,081 | $ (322) | $ 186,577 | $ 331,336 |
| Change during the year | | | | | |
| Net income for the year | – | – | – | 80,795 | 80,795 |
| Dividends paid | – | – | – | (20,800) | (20,800) |
| Change in fair value of cash flow hedge, net of income tax | – | – | (574) | – | (574) |
| Net change in fair value of hedge transferred to net income, net of income tax | – | – | 896 | – | 896 |
| **Ending balance, March 31, 2012** | $ – | $ 145,081 | $ – | $ 246,572 | $ 391,653 |

*The accompanying notes are an integral part of the consolidated financial statements.*

## Consolidated Statements of Cash Flows

As at March 31

| (Expressed in thousands of Canadian dollars) | Note | March 31, 2012 | March 31, 2011 |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Net income | | **$ 80,795** | $ 33,081 |
| Interest paid | | **(2,678)** | (7,667) |
| Income tax paid | | **(42,502)** | (12,224) |
| Gain on sale of investment property | | **(61,441)** | (11,198) |
| Gain on sale of property, plant and equipment | | **(34,324)** | – |
| Recovery of costs on sale of properties held for development or sale | | **43,383** | 38,183 |
| Expenditures on properties held for development or sale | | **(28,609)** | (30,659) |
| Write-down, reversals and pre-acquisition costs | | **1,156** | (6,712) |
| Deferred income taxes recovery | | **9,786** | 2,776 |
| Depreciation | | **11,619** | 17,813 |
| | | **(22,815)** | 23,393 |
| Net change in non-cash working capital | | **(31,975)** | 24,899 |
| **CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES** | | **(54,790)** | 48,292 |
| **FINANCING ACTIVITIES** | | | |
| Repayment of notes payable | | **(17,442)** | (11,940) |
| Dividend paid | | **(20,800)** | (8,500) |
| Repayment of term loans | | **(94,372)** | (48,751) |
| Repayment of mortgage bond payable | | **(5,304)** | (5,030) |
| **CASH USED IN FINANCING ACTIVITIES** | | **(137,918)** | (74,221) |
| **INVESTING ACTIVITIES** | | | |
| Interest received | | **1,363** | 317 |
| Expenditures on investment properties | | **(3,748)** | (727) |
| Expenditures on property, plant and equipment | | **(13,778)** | (6,338) |
| Proceeds from sale of property, plant and equipment | | **121,163** | – |
| Proceeds from sale of investment properties | | **116,237** | 21,880 |
| **CASH PROVIDED BY INVESTING ACTIVITIES** | | **221,237** | 15,132 |
| **NET INCREASE (DECREASE) IN CASH** | | **28,529** | (10,797) |
| Cash and cash equivalents, beginning of year | | **28,899** | 39,696 |
| **CASH AND CASH EQUIVALENTS, END OF YEAR** | | **$ 57,428** | $ 28,899 |
| Supplemental cash flows information | 21 | | |

*The accompanying notes are an integral part of the consolidated financial statements.*

# Notes to Consolidated Financial Statements

Expressed in thousands of Canadian dollars unless otherwise stated

## 1. AUTHORITY AND ACTIVITIES OF CLCL

Canada Lands Company Limited (CLCL or the corporation) became an agent Crown corporation pursuant to Governor in Council approval (order-in-council number P.C. 2003-1306). The Government of Canada is CLCL's ultimate controlling parent. It was originally named Public Works Lands Company Limited, was incorporated under the *Companies Act* in 1956 and was continued under the *Canada Business Corporations Act*. It is listed as a parent Crown Corporation in Part I of Schedule III to the *Financial Administration Act*.

CLCL conducts its real estate business operations through Canada Lands Company CLC Limited (CLC), its principal wholly-owned subsidiary. CLC's objective is to carry out a commercially oriented and orderly disposal program of certain real properties of the Government of Canada (the government) and the management of certain select properties. In undertaking this objective, CLC may manage, develop and dispose of real properties, either in its capacity as owner or on behalf of the government. The registered office of the company is 1 University Avenue, Suite 1200, Toronto, Ontario, M5J 2P1.

The consolidated financial statements were approved by the Board of Directors on June 25, 2012.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### a) Statement of Compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

### b) Basis of Presentation

CLCL's consolidated financial statements have been prepared on a historical cost basis, except for inventories which are measured at the lower of cost or net realizable value and hedges which are measured at fair value. The consolidated financial statements are prepared on a going concern basis and have been presented in Canadian dollars rounded to the nearest thousand. The accounting policies set out below have been applied consistently in all material respects to all years presented in these consolidated financial statements, and in preparing the opening IFRS consolidated statement of financial position as at April 1, 2010 for the purpose of the transition to IFRS. Standards and guidelines not effective for the current accounting period are described in note 3.

### c) Basis of Consolidation

The consolidated financial statements include the accounts of the corporation and its consolidated subsidiary, which is the entity over which the corporation has control. Control exists when the corporation has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The accounts of CLC, a wholly-owned subsidiary of CLCL, are consolidated with CLCL's accounts.

CLCL holds the shares of Old Port of Montréal Corporation Inc. (OPMC) and Parc Downsview Park (PDP) in trust for Her Majesty in right of Canada. OPMC and PDP are excluded from consolidation because CLCL does not have continuing power to determine their strategic operating, investing and financing policies and because OPMC and PDP have been directed by the government to report as parent Crown corporations. CLCL has no recorded investment in OPMC and PDP, hence these entities are not consolidated with CLCL's accounts.

### d) Revenue Recognition

CLC recognizes revenue as follows:

#### i) Real estate sales

Sales revenues are recognized at the time that the risks and rewards of ownership have been transferred, possession or title of the property passes to the purchaser, and all material conditions of the sales contract have been met, with receipt of at least 15% of the total proceeds.

#### ii) Rental

The corporation has retained substantially all of the risks and benefits of ownership of its investment properties and therefore accounts for leases with its tenants as operating leases. Revenue recognition under a lease commences when the tenant has a right to use the leased asset. Generally, this occurs on the lease inception date or, where the corporation is required to make additions to the property in the form of tenant improvements which enhance the value of the property, upon substantial completion of those improvements. The total amount of contractual rent to be received from operating leases is recognized on a straight-line basis over the term of the non-cancellable portion of the leases in place; a straight-line rent receivable, which is included in the carrying amount of investment property, is recorded for the difference between the rental revenue recorded and the contractual amount received.

Rental revenue also includes percentage participating rents and recoveries of operating expenses, including property and capital taxes. Operating expense recoveries are recognized in the period that recoverable costs are chargeable to tenants.

#### iii) Rental from incidental activities

In addition to earning rental revenues from leases associated with investment properties, the corporation also earns rental revenues from lease arrangements with tenants on certain commercial and residential development properties in inventory. These lease arrangements are generally short term and renewable on an annual basis and considered incidental to the related land development activities. As described in note 2n)i), the corporation has applied judgment in determining that the commercial and residential development properties from which rental from incidental activities is derived are classified and carried as inventory instead of investment property. The revenue recognition policy for the related lease arrangements is consistent with the policy applied in lease arrangements of investment properties as described in note 2d)ii).

#### iv) CN Tower operating revenues

Revenues from ticket sales, food and beverage sales, hospitality revenues and retail store sales are recognized at point of sale or when services are provided as appropriate.

### e) Pre-acquisition Costs

Costs incurred on properties that CLC has no title to or early use agreement for are expensed to the Consolidated Statements of Comprehensive Income.

## f) Properties

### i) Property, plant and equipment

Property, plant and equipment (PPE) includes properties held for use in the supply of goods and services or administrative purposes. All PPE is stated at historical cost less depreciation and any impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Borrowing costs incurred for the purpose of acquiring, constructing or producing a qualifying PPE are capitalized. A qualifying PPE is an asset that necessarily takes a substantial period of time to get ready for its intended use. Borrowing costs are capitalized while acquisition, construction or production is actively underway and cease once the asset has reached completion, as intended by management, or suspended if the development of the asset is suspended.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the corporation and the cost of the item can be measured reliably. The carrying amount of those parts that are replaced is derecognized. All other repairs and maintenance are charged to the Consolidated Statements of Comprehensive Income during the financial period in which they are incurred.

PPE also includes the cost of office, building equipment and furnishings.

Depreciation, based on a component approach, is calculated using the straight-line method to allocate the cost over the assets' estimated useful lives, as follows:

| | |
|---|---|
| Foundations, structure and walls | 13–55 years |
| Site works | 10 years |
| Mechanical | 8–25 years |
| Electrical | 8–30 years |
| Building equipment | 12–26 years |
| Heating and ventilation | 8–12 years |
| Elevators and escalators | 11–26 years |
| Specialty equipment | 10–20 years |
| Roof covering | 20–25 years |
| Building finishes | 7–10 years |
| In-place leasing costs | 10 years |
| Office equipment and computer software and hardware | 3–5 years |
| Catering, hospitality and entertaining equipment | 3–15 years |
| Leasehold improvements | Term of lease |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate on an annual basis.

An asset's carrying amount is written down immediately to its recoverable amount if its carrying amount is greater than its estimated recoverable amount (note 2h)).

### ii) Investment properties

Investment properties are properties held by the corporation for the purpose of obtaining rental income or capital appreciation. Investment property also includes properties that are being constructed or developed for future use as investment properties.

The corporation applies the cost model in which investment properties are valued under the same basis as property, plant and equipment (note 2f)i)), except where the asset meets the criteria to be classified as held for sale, then the asset is measured in accordance with IFRS 5, "Non-current assets held for sale and discontinued operations" (see note 2g)).

The depreciation rates for property, plant and equipment are also applicable to investment properties.

From commencement of commercial development until the date of completion, CLC capitalizes direct development costs, realty taxes and borrowing costs that are directly attributable to the project. Also, initial direct leasing costs incurred by the corporation in negotiating and arranging tenant leases are added to the carrying amount of investment property. In management's view, completion occurs upon completion of construction and receipt of all necessary occupancy and other material permits. Depreciation commences upon completion of commercial development and is based on a component approach discussed in detail in note 2f)i).

### iii) Inventories

Property acquired or being constructed for sale in the ordinary course of business, rather than held for rental or capital appreciation, is held as inventory and is measured at the lower of cost and net realizable value. Costs are allocated to the saleable acreage of each project or subdivision in proportion to the anticipated revenue or current average cost per acre. Inventories are written down to NRV (Net Realizable Value) whenever events or changes in circumstances indicate the carrying value may exceed net realizable value. A write-down to NRV is recognized in net income when carrying value of the property exceeds its net realizable value. Net realizable value is based on projections of future cash flows, which take into account the specific development plans for each project and management's best estimate of the most probable set of economic conditions anticipated to prevail in the market.

The corporation capitalizes all direct expenditures incurred in connection with the acquisition, development and construction. These include: freehold and leasehold rights for land, amounts paid to contractors for construction, borrowing costs, planning and design costs, costs of site preparation, professional fees for legal services, property transfer taxes, property taxes, construction overheads and other related costs. Selling costs such as commissions and marketing programs are expensed when paid.

The development period commences when expenditures are being incurred and activities necessary to prepare the asset for its intended use are in progress. Capitalization ceases when the asset is ready for its intended use. During the development phase, any rental revenues and associated expenses related to the project are recognized in net income during the period. Costs incurred on properties that CLC has no title to or early use agreement for are expensed to the Consolidated Statements of Comprehensive Income.

Inventories are considered current assets when active development begins or when property has been serviced. Properties undergoing active development are classified as "properties under development", whereas properties that have been serviced and ready for sale are classified as "completed properties held for sale". Properties classified as "properties held for future development or sale" are considered non-current.

The operating inventories carried by the CN Tower and the InterContinental Hotel are included in trade and other receivables in the Consolidated Statements of Financial Position.

### g) Assets Held for Sale

Non-current assets and groups of assets and liabilities which comprise disposal groups are categorized as assets held for sale where the asset or disposal group is available for sale in its present condition, and the sale is highly probable. For this purpose, a sale is highly probable if management is committed to a plan to achieve the sale; there is an active program to find a buyer; the non-current asset or disposal group is being actively marketed at a reasonable price; the sale is anticipated to be completed within one year from the date of classification; and it is unlikely there will be changes to the plan.

Where an asset or disposal group is acquired with a view to resale, it is classified as a "non-current asset held for sale" if the disposal is expected to take place within one year of the acquisition, and it is highly likely that the other conditions referred to above will be met within a short period following the acquisition. The gain on sale of a disposal group will be recognized with discontinued operations.

### h) Impairment of Financial and Non-financial Assets

At the end of each reporting period, the corporation reviews its assets to determine whether there is an event or change in a circumstance that indicates a possible impairment loss. An impairment loss is recognized for the amount by which an asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. The value in use is calculated as the discounted present value of estimated future cash flows expected to arise from the corporation's planned use of an asset and from its disposal at the end of its useful life. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffer impairment are reviewed for possible reversal of the impairment at each reporting date when changes in circumstances that led to the initial impairment provision indicate that such impairments have been reduced.

### i) Cash and Cash Equivalents

Cash and cash equivalents include cash and short-term, highly liquid investments, such as money market funds and term deposits, with original maturities at the date of purchase of three months or less.

### j) Income Taxes

Income tax comprises current and deferred tax. Income tax is recognized in the income statement except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. Current tax is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is reported using the balance sheet liability method, providing for temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax reported is based on the expected manner of realization or settlement of the carrying amounts of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

## k) Financial Instruments

The following summarizes the corporation's classification and measurement of financial assets and liabilities:

| | Classification | Measurement |
|---|---|---|
| **Financial Assets** | | |
| Trade and other receivables | Loans and receivables | Amortized cost |
| Long-term receivables | Loans and receivables | Amortized cost |
| Cash and cash equivalents | Loans and receivables | Amortized cost |
| Short-term investments | Loans and receivables | Amortized cost |
| **Financial Liabilities** | | |
| Mortgage bond payable | Other liabilities | Amortized cost |
| Term loans | Other liabilities | Amortized cost |
| Notes payable | Other liabilities | Amortized cost |
| Trade and other payables | Other liabilities | Amortized cost |
| Interest rate swap | Fair value through Profit and Loss | Fair value |

The corporation documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives that are designated as hedges to specific assets and liabilities on the Consolidated Statements of Financial Position or to specific firm commitments or forecasted transactions. The corporation also assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are designated as hedges are highly effective in offsetting changes in fair values or cash flows of hedged items.

In cash flow hedging relationships, the effective portion of the change in the fair value of the hedging derivative is recognized in other comprehensive income (loss) (OCI) while the ineffective portion is recognized in net income. Hedging gains and losses recognized in accumulated other comprehensive income (loss) (AOCI) are reclassified to net income in the periods when the hedged item affects net income. Gains and losses on derivatives are immediately reclassified to net income when the hedged item is sold or terminated or when it is determined a forecasted hedged transaction is no longer probable.

On April 1, 2010, the corporation entered into an interest rate swap. This interest rate swap derivative is designated as a cash flow hedge with a notional amount of $50 million and a fixed rate of 2.47% plus stamping fee of 1.5% maturing on April 1, 2013. This interest rate swap was extinguished when the loan was paid off in September 2011.

## l) Provisions

A provision is a liability of uncertain timing or amount. Provisions are recognized when CLC has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognized as finance cost.

## m) Other Comprehensive Income (Loss)

OCI represents changes in shareholder's equity arising from unrealized gains and losses on financial assets classified as available-for-sale, and changes in the fair value of the effective portion of cash flow hedging instruments.

## n) Critical Judgments in Applying Accounting Policies

In the process of applying the corporation's accounting policies, management has made the following judgments which have the most significant effect on the amounts recognized in the consolidated financial statements:

### i) Inventories

The corporation's policies related to property inventories are described in note 2f)iii). In applying this policy, CLC makes judgments with respect to the classification of certain inventory properties.

CLC considers inventories as current when active development begins or when the property has been serviced or sold as is. The operating cycle for inventories frequently exceeds twelve months as a result of development lead times and market conditions.

### ii) Investment properties

CLC's accounting policies are described in note 2f)ii). In applying this policy, judgment is made for investment properties under development in determining when the property has reached completion.

### iii) Leases

CLC's policy on revenue recognition is stated in note 2d)ii). With regards to this policy, the corporation must consider whether a tenant improvement provided in connection with a lease enhances the value of the leased property in order to determine whether such amounts are treated as additions to investment property.

The corporation also makes judgments in determining whether certain leases, especially long-term leases in which the tenant occupies all or a major part of the property, are operating or finance leases.

### iv) Sale price allocation

CLC has adopted the sale price allocation used by the purchaser in allocating the sales proceeds between property, plant and equipment and investment properties for the sale of the Metro Toronto Convention Centre (MTCC) Complex.

The hotel portion of the MTCC Complex classified as Property, Plant and Equipment is reported under Discontinued Operations in the Consolidated Statements of Comprehensive Income. The other properties sold were classified as investment properties and are reported under gain on sale of investment property.

### v) Provisions

The corporation's policies related to provisions are described in note 2l). In applying this policy, CLC makes judgments with respect to the best estimates of expected value of its outcome.

## o) Significant Accounting Estimates and Assumptions

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. The corporation includes in its liabilities future servicing costs to complete a project based on management's best estimates. Actual results could differ significantly from those estimates. The estimates and assumptions that are critical to the determination of the amounts reported in the financial statements relate to the following:

### i) Inventories

In determining estimates of net realizable values for its properties, CLC relies on assumptions regarding applicable industry performance and prospects, as well as general business and economic conditions that prevail and are expected to prevail. Assumptions underlying asset valuations are limited by the availability of reliable comparable data and the uncertainty of predictions concerning future events. Due to the assumptions made in arriving at estimates of net realizable value, such estimates, by nature, are subjective and do not necessarily result in a precise determination of asset value.

In arriving at such estimates of net realizable value of the properties, management is required to make assumptions and estimates as to future costs which could be incurred in order to comply with statutory and other requirements. Also, estimates of future development costs are used to allocate current development costs across project phases. Such estimates are, however, subject to change based on agreements with regulatory authorities, changes in laws and regulations, the ultimate use of the property, and as new information becomes available.

The corporation produces a yearly corporate plan that includes a proforma analysis of the projects, including expected revenues and projected costs. This analysis is used to determine the cost of sales recorded. This proforma analysis is reviewed periodically and updated to reflect current information.

### ii) Investment properties

Management's internal assessments of fair values of investment properties are based upon internal financial information and are corroborated by capitalization rates obtained from independent sources. These estimates are subject to significant judgments and assumptions about market conditions in effect as at the reporting date.

### iii) Financial instruments

Where the fair values of financial assets and financial liabilities as disclosed in the notes to the financial statements cannot be derived from active markets, they are determined using valuation techniques including discounted cash flow models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include consideration of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value.

### iv) Significant components

The useful lives and residual values of CLC's assets are determined by management at the time the asset is acquired and reviewed annually for appropriateness. The lives are based on historical experience with similar assets as well as anticipation of future events. Management also makes judgments in determining significant components. A component or part of an item of property, plant and equipment and investment property is considered significant if its allocated cost is material in relation to the total cost of the item. Also, in determining the parts of an item, CLC identifies parts that have varying useful lives or consumption patterns.

### v) Property, plant and equipment

The fair value of the CN Tower was used as the deemed cost on transition to IFRS to establish the significant components of the property (see note 4).

### vi) Interest rate on notes payable to the government

Notes payable are issued in consideration of the acquisition of real estate properties and are due to the Government of Canada. These notes are repayable on the earlier of their due dates or the dates on which net proceeds become available from the sale by CLC of the properties in respect of which the notes were issued. The repayment schedule is also based on estimated time period. All notes are non-interest bearing. The notes are discounted using an imputed fixed interest rate. The imputed interest is accrued and capitalized to properties or expensed, as appropriate.

### vii) Impairment

Management reviews assets annually as part of the corporate planning process. For inventories, a write-down is recorded when the net present value of anticipated net sales revenue is less than the book value of the property. Impairment of investment properties and property, plant and equipment is recorded if the appraised value of the property is less than the book value.

## 3. FUTURE CHANGES IN ACCOUNTING POLICIES

For CLC's future reporting, we have reviewed the new and revised accounting pronouncements listed below; these have been issued, but are not yet effective.

### i) IAS 1 Presentation of Financial Statements

In June 2011, the International Accounting Standards Board (IASB) published amendments to IAS 1 Presentation of Financial Statements. The amendments revise the way other comprehensive income is presented, requiring separate subtotals for those elements which may be reclassified to profit or loss subsequently and those elements that will not. The amendments are applicable to annual periods beginning on or after July 1, 2012, with early adoption permitted.

The corporation has not assessed the impact of this new standard on its consolidated financial statements.

### ii) IFRS 7 Disclosures – Transfers of Financial Assets

In October 2010, the IASB issued Amendments to IFRS 7 Disclosures – Transfers of Financial Assets, which is effective for annual periods beginning on or after July 1, 2012. The amendments to IFRS 7 require disclosure of information that enables users of financial statements to understand the relationship between transferred financial assets that are not derecognized in their entirety and the associated liabilities; and to evaluate the nature of, and risks associated with, the entity's continuing involvement in derecognized financial assets. The amendments define "continuing involvement" for the purposes of applying the disclosure requirements. The corporation does not expect the amendments to have a material impact on the consolidated financial statements, because of the nature of the corporation's operations and the types of financial assets that it holds.

### iii) IFRS 9 Financial Instruments

IFRS 9 was issued in November 2009 and is intended to replace IAS 39, "Financial Instruments: Recognition and Measurement" (IAS 39) in phases. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, as opposed to the multiple rules in IAS 39. The approach is based on how an entity manages its financial instruments given its business model and the contractual cash flow characteristics of the financial assets. The standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for reporting periods beginning on or after January 1, 2015.

The corporation has not assessed the impact of this new standard on its consolidated financial statements.

### iv) IFRS 10 Consolidated Financial Statements

IFRS 10 was issued in May 2011 and sets a single basis for consolidation, that being control of an entity. IFRS 10 replaces portions of IAS 27, "Consolidated and Separate Financial Statements" and Standing Interpretations Committee 12, "Special Purpose Entities" which provide a single model on how entities should prepare consolidated financial statements. This standard is effective for reporting periods beginning on or after January 1, 2013, with earlier adoption permitted.

The corporation has not assessed the impact of this new standard on its consolidated financial statements.

### v) IFRS 11 Joint Arrangements

IFRS 11, issued in May 2011, establishes principles for financial reporting by entities involved in a joint arrangement and distinguishes between joint operations and joint ventures. IFRS 11 supersedes the current IAS 31, "Interests in Joint Ventures" and Standing Interpretations Committee 13, "Jointly Controlled Entities – Non Monetary Contributions by Ventures" and is effective for reporting periods beginning on or after January 1, 2013. Earlier application is permitted.

The corporation has not assessed the impact of this new standard on its consolidated financial statements.

### vi) IFRS 12 Disclosure of Interests in Other Entities

IFRS 12, issued in May 2011, establishes a single set of disclosure objectives, and requires minimum disclosures designed to meet those objectives, regarding interests in subsidiaries, joint arrangements, associates or unconsolidated structured entities. IFRS 12 is intended to combine the disclosure requirements on interests in other entities currently located in several different standards. This standard is effective for reporting periods beginning on or after January 1, 2013, with earlier adoption permitted.

The corporation has not assessed the impact of this new standard on its consolidated financial statements.

### vii) IFRS 13 Fair Value Measurements

IFRS 13, issued in May 2011, defines fair value, sets out a single IFRS framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies to IFRS that require or permit fair value measurements or related disclosures, except in specified circumstances. IFRS 13 is to be applied for reporting periods beginning on or after January 1, 2013. Earlier application is permitted.

The corporation has not assessed the impact of this new standard on its consolidated financial statements.

### viii) IAS 28 Investments in Associates and Joint Ventures

IAS 28 was amended in May 2011 to prescribe the accounting for investments in associates and set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. IAS 28 is effective for reporting periods beginning on or after January 1, 2013. Earlier application is permitted.

The corporation has not assessed the impact of this new standard on its consolidated financial statements.

## 4. TRANSITION TO IFRS

CLC has adopted IFRS effective April 1, 2010 (the transition date) and has prepared its opening IFRS consolidated statement of financial position as at that date. Prior to adoption of IFRS, the corporation prepared its financial statements in accordance with Canadian generally accepted accounting principles (Canadian GAAP). The corporation's consolidated financial statements for the year ended March 31, 2012 are the first annual financial statements that comply with IFRS.

### Elected and Mandatory Exemptions from Full Retrospective Application

In accordance with IFRS 1 (First-time Adoption of International Financial Reporting Standards), CLC has applied exemptions as described below:

The corporation has applied the business combinations exemption. As a result, it did not restate any business combinations that occurred prior to the transition date.

The corporation has applied the borrowing costs exemption and as a result, it did not restate any capitalization of interest that occurred prior to the transition date.

Fair value of $85.3 million as deemed cost was used to establish the opening valuation for the CN Tower under Property, plant and equipment. This resulted in a revaluation loss of $1.5 million that was adjusted against opening retained earnings. CLC used the value in use method to determine this value based on the depreciated replacement cost of the Tower to which was added the market value of the land as determined by comparable market evidence. A valuation based on the income approach was also undertaken in support of this value, which capitalized at an appropriate rate the actual and forecasted net annual revenues derived from the Tower.

Hindsight was not used to create or revise estimates and accordingly, the estimates previously made by the corporation under Canadian GAAP are consistent with their application under IFRS.

For hedge accounting, only hedging relationships that satisfied the hedge accounting criteria as of the transition date are reflected as hedges in the company's results under IFRS.

### a) Reconciliation of the CLC's total equity reported in accordance with Canadian GAAP to its total equity in accordance with IFRS at the transition date:

The following is a reconciliation of the CLC's total equity reported in accordance with Canadian GAAP to its total equity in accordance with IFRS at the transition date:

| | Capital Stock | Contributed Surplus | AOCI | Retained Earnings | Total Equity |
|---|---|---|---|---|---|
| As reported under Canadian GAAP – March 31, 2010 | $ – | $ 145,081 | $ – | $ 150,310 | $ 295,391 |
| Difference increasing (decreasing) reported amounts | | | | | |
| Depreciation (i) | – | – | – | (9,071) | (9,071) |
| Inventories (ii) | | | | | |
| Incidental operations | – | – | – | 37,964 | 37,964 |
| Cost of sales | – | – | – | (4,236) | (4,236) |
| Fair value as deemed cost (iii) | – | – | – | (1,541) | (1,541) |
| Impairment (iv) | – | – | – | (7,266) | (7,266) |
| Deferred taxes (v) | – | – | – | (4,164) | (4,164) |
| As reported under IFRS – April 1, 2010 | $ – | $ 145,081 | $ – | $ 161,996 | $ 307,077 |

The following is a reconciliation of the CLC's total equity reported in accordance with Canadian GAAP to its total equity in accordance with IFRS at March 31, 2011:

| | Capital Stock | Contributed Surplus | AOCI | Retained Earnings | Total Equity |
|---|---|---|---|---|---|
| As reported under Canadian GAAP – March 31, 2011 | $ – | $ 145,081 | $ (322) | $ 169,510 | $ 314,269 |
| Difference increasing (decreasing) reported amounts | | | | | |
| Depreciation (i) | – | – | – | (14,229) | (14,229) |
| Inventories (ii) | | | | | |
| Incidental operations | – | – | – | 43,891 | 43,891 |
| Cost of sales | – | – | – | (4,131) | (4,131) |
| Fair value as deemed cost (iii) | – | – | – | (1,541) | (1,541) |
| Impairment (iv) | – | – | – | (476) | (476) |
| Deferred taxes (v) | – | – | – | (6,447) | (6,447) |
| As reported under IFRS – March 31, 2011 | $ – | $ 145,081 | $ (322) | $ 186,577 | $ 331,336 |

### i) Depreciation

Under IFRS, depreciation of PP&E and Investment Properties is based on a component approach as described in note 2f)i and ii). Where property is comprised of significant parts, those parts are accounted for as separate units and are depreciated accordingly. These components include: foundations, structure, building equipment, heating and ventilation, specialty equipment and building finishes. Under Canadian GAAP, most building components were depreciated over forty years as part of the useful life of the building, however, under IFRS, the components' useful lives range from 3 to 55 years. The adjustment to retained earnings is a result of depreciating significant building components over a different period of time corresponding to the respective component's useful life.

### ii) Inventories

*Incidental operations*

Under Canadian GAAP, CLC capitalized incidental rental operations when earned from properties under development or held for sale, now Inventories under IFRS. IFRS prohibits the capitalization of incidental rental operations since the costs incurred and revenues earned are not required to develop the property inventories to their saleable condition as intended by management.

*Cost of sales*

The amount recognized as Real Estate Cost of Sales under Canadian GAAP is updated to reflect the fact that no incidental rental operations are included, thus the total estimated cost for each project was updated, and the updated costs were allocated to the saleable acreage of each project in proportion to the anticipated revenue.

### iii) Fair value as deemed cost

CLC has elected to apply the optional IFRS 1 exemption to measure the CN Tower property (excluding land) at fair value as at the transition date and use that amount as its deemed cost in the opening IFRS balance sheet.

### iv) Impairment

If facts and circumstances indicate that intangible assets with finite useful lives, property, plant and equipment or investment property may have suffered an impairment loss, Canadian GAAP requires a comparison of the carrying amount of those with the sum of undiscounted cash flows that are expected to be generated from those assets. If the carrying amount exceeds the sum of undiscounted cash flows, these assets are impaired. The necessary impairment charge is the amount by which the carrying amount of assets exceeds their fair values. Under IFRS, the assets are impaired if the carrying amounts of assets exceed the higher of a fair value less cost to sell or the sum of discounted cash flows that are expected to be generated with these assets (the recoverable amount). The excess carrying amount also represents the necessary impairment charge.

### v) Deferred taxes

The increase in deferred tax liabilities under IFRS compared to Canadian GAAP primarily relates to the increased carrying values of the corporation's property inventories. The deferred tax liability under IFRS is determined by applying tax rates to temporary differences that are consistent with the corporation's expectation that the method of realization will be through owning and operating its properties rather than through sale.

### b) Reconciliation Between Net Income and Comprehensive Income as Reported Under Canadian GAAP and Comprehensive Income as Reported Under IFRS

The following is a reconciliation of the corporation's net income and comprehensive income reported in accordance with Canadian GAAP to its comprehensive income in accordance with IFRS for the year ended March 31, 2011.

| | Year ended March 31, 2011 |
|---|---|
| As reported under Canadian GAAP | $ 27,378 |
| Difference increasing (decreasing) reported amounts | |
| Depreciation (i) | (5,158) |
| Incidental operations (ii) | 5,926 |
| Cost of sales (iii) | 106 |
| Reversal of impairment (iv) | 6,790 |
| Deferred taxes (v) | (2,283) |
| As reported under IFRS | $ 32,759 |

#### i) Depreciation

As described in note 4a)i), this adjustment relates to the adoption of the "component approach" under IFRS. In addition the fair value as deemed cost and impairment adjustments described in note 4a)iii) & iv) impacted the depreciation in the post-transition period.

#### ii) Incidental operations

Under Canadian GAAP, CLC capitalized incidental rental operations when earned from properties under development or held for sale, now Inventories, under IFRS. IFRS prohibits the capitalization of incidental rental operations since the costs incurred and revenues earned are not required to develop the property as intended by management.

#### iii) Cost of sales

The amount recognized as Real Estate Cost of Sales under Canadian GAAP is updated to reflect the fact that no incidental rental operations will be recorded, thus the total estimated cost for each project was updated, and the updated costs were allocated to the saleable acreage of each project in proportion to the anticipated revenue.

#### iv) Reversal of impairment

An impairment loss recognized in a prior period for an asset may be reversed if and only if there has been a change in the estimates used to determine the recoverable amount of the asset since the last impairment loss was recognized.

In December of 2010, the corporation had an appraisal done for the hotel facility and the appraisal report established a market value that exceeded the carrying value of the asset. An impairment loss reversal of $6.8 million was booked for the hotel facility (see note 4a)iv).

#### v) Deferred taxes

The adjustment related to deferred taxes reflects the change in temporary differences resulting from the impact of the above differences between IFRS and Canadian GAAP.

### c) Effect of IFRS adoption on the Consolidated Statements of Cash Flows

| | Year ended March 31, 2011 | | | | | |
|---|---|---|---|---|---|---|
| | Net cash flows from operating activities | Net cash flows from financing activities | Net cash flows from investing activities | Net increase (decrease) in cash and cash equivalents | Cash and cash equivalents at beginning of period | Cash and cash equivalents at end of period |
| As reported under Canadian GAAP | $ 56,150 | $ (74,221) | $ 7,274 | $ (10,797) | $ 39,696 | $ 28,899 |
| Effect of transition to IFRS | (7,858) | – | 7,858 | – | – | – |
| As reported under IFRS | $ 48,292 | $ (74,221) | $ 15,132 | $ (10,797) | $ 39,696 | $ 28,899 |

The IFRS adjustments made to the comparative consolidated statements of comprehensive income for the year ended March 31, 2011 (as described in detail in note 4 b) have been made to the consolidated statements of cash flows as at the same date.

Net cash flows from operating activities increased as a result of higher net income, offset by higher expenditures on property inventories, the reversal of impairment and a change in the presentation of gain from sale of investment property.

Net cash flows from investing activities increased as a result of higher expenditures on property, plant and equipment, change in presentation of the sale of investment property and interest received.

## 5. DISCONTINUED OPERATIONS

On August 18, 2011, CLC announced that it had entered into an agreement to sell the Metro Toronto Convention Centre Complex (the Complex) properties that included the InterContinental Hotel, Metro Toronto Convention Centre (MTCC), 277 Front Street Office Tower, and a 1,200 stall parking facility as part of the disposal group. On September 14, 2011 CLC sold the Complex for $237.4 million to Oxford Properties Group, the real estate arm of Omers Worldwide Group of Companies.

### i) Discontinued Operations

CLC booked a sale of $121.2 million for the hotel portion of the Complex, realizing a gain of $25.1 million, net of tax of $9.2 million. The hospitality operations of the InterContinental Hotel (classified as Property, Plant & Equipment in the Consolidated Statements of Financial Position) are considered discontinued operations. The following table summarizes the income and cash flows from discontinued operations:

Discontinued Operations

| | For the year ended March 31 | |
|---|---|---|
| (thousands) | 2012 | 2011 |
| Revenues | $ 18,612 | $ 42,375 |
| Operating expenses | 15,487 | 27,386 |
| Interest expense | 1,171 | 3,703 |
| Depreciation | 2,603 | 6,234 |
| Results from operating activities before income taxes | (649) | 5,052 |
| Income tax expense on operating activities | (174) | 1,455 |
| Results from operating activities net of income tax | (475) | 3,597 |
| Gain from disposal | 34,324 | – |
| Income tax expense on gain from disposal | 9,216 | – |
| Net gain from disposal | 25,108 | – |
| Net income from discontinued operations | $ 24,633 | $ 3,597 |
| Cash flows from (used in) discontinued operations | | |
| Cash flows from operating activities | 112,227 | 3,682 |
| Cash flows from investing activities | (5,817) | (2,319) |
| Cash flows from financing activities | (113,206) | (6,467) |
| Net cash used in discontinued operations | $ (6,796) | $ (5,104) |

### ii) Dispositions

Other properties that were part of the disposal of the Complex that was sold on September 14, 2011 but do not represent discontinued operations include the office tower at 277 Front Street West and the Metro Toronto Convention Centre which included the 1,200 stall parking facility. CLC sold these properties for total consideration of $116.2 million. CLC realized a gain of $61.4 million before income taxes that is recorded in the revenue section of the Consolidated Statements of Comprehensive Income under the caption Gain on sale of investment property.

As a result of the sale, CLC retired the term loans of $95 million from the proceeds of the sale. The cash flow hedge portion of the term loan of $50 million was also terminated.

## 6. PROPERTY, PLANT & EQUIPMENT

CLC's Property, plant & equipment consist mainly of the CN Tower, the Plaza Garage, the John Street Parkette, and computers and office equipment.

### Cost or deemed cost

| | Land | Building | Equipment | Total |
|---|---|---|---|---|
| Balance, April 1, 2010 | $ 5,582 | $ 176,307 | $ 23,431 | $ 205,320 |
| Additions | 50 | 3,660 | 2,729 | 6,439 |
| Write-off | – | – | 102 | 102 |
| Balance, March 31, 2011 | $ 5,632 | $ 179,967 | $ 26,058 | $ 211,657 |
| Additions | 1,368 | 10,388 | 2,022 | 13,778 |
| Disposals | – | 98,548 | 10,321 | 108,869 |
| Balance, March 31, 2012 | **$ 7,000** | **$ 91,807** | **$ 17,759** | **$ 116,566** |

### Depreciation and impairment

| | Land | Building | Equipment | Total |
|---|---|---|---|---|
| Balance, April 1, 2010 | $ – | $ 12,019 | $ 13,601 | $ 25,620 |
| Additions for the year: | | | | |
| Depreciation | – | 10,641 | 2,939 | 13,580 |
| Reversal of impairment | – | (6,887) | 97 | (6,790) |
| Balance, March 31, 2011 | $ – | $ 15,773 | $ 16,637 | $ 32,410 |
| Additions for the year: | | | | |
| Depreciation | – | 7,909 | 2,112 | 10,021 |
| Disposals | – | 17,606 | 4,425 | 22,031 |
| Balance, March 31, 2012 | **$ –** | **$ 6,076** | **$ 14,324** | **$ 20,400** |
| **Carrying amounts** | | | | |
| At April 1, 2010 | 5,582 | 164,288 | 9,830 | 179,700 |
| At March 31, 2011 | 5,632 | 164,194 | 9,421 | 179,247 |
| At March 31, 2012 | **7,000** | **85,731** | **3,435** | **96,166** |

## 7. INVESTMENT PROPERTIES

CLC's investment properties consist primarily of the 277 Front Street West office tower, land at the Rogers Centre, the Metro Toronto Convention Centre, the CN Tower Base Development and the Nokia building which was subsequently sold on April 27, 2010. The 277 Front Street West office tower and Metro Toronto Convention Centre were sold on September 14, 2011.

### Cost or deemed cost

| | Land | Building | In-place Leasing Costs | Total |
|---|---|---|---|---|
| Balance, April 1, 2010 | $ 6,938 | $ 63,216 | $ 9,492 | $ 79,646 |
| Additions | 371 | 356 | – | 727 |
| Disposals | 2,316 | 10,813 | – | 13,129 |
| Balance, March 31, 2011 | $ 4,993 | $ 52,759 | $ 9,492 | $ 67,244 |
| Additions | 1,223 | 2,523 | – | 3,746 |
| Disposals | 3,764 | 55,282 | 9,492 | 68,538 |
| Balance, March 31, 2012 | **$ 2,452** | **$ –** | **$ –** | **$ 2,452** |

### Depreciation

| | Land | Building | In-place Leasing Costs | Total |
|---|---|---|---|---|
| Balance, April 1, 2010 | $ – | $ 8,872 | $ 1,899 | $ 10,771 |
| Additions for the year: | | | | |
| Depreciation | – | 3,244 | 949 | 4,193 |
| Disposals | – | 2,447 | – | 2,447 |
| Balance, March 31, 2011 | **$ –** | **$ 9,669** | **$ 2,848** | **$ 12,517** |
| Additions for the year: | | | | |
| Depreciation | – | 1,231 | 316 | 1,547 |
| Disposals | – | 10,900 | 3,164 | 14,064 |
| Balance, March 31, 2012 | **$ –** | **$ –** | **$ –** | **$ –** |
| **Carrying amounts** | | | | |
| At April 1, 2010 | 6,938 | 54,344 | 7,593 | 68,875 |
| At March 31, 2011 | 4,993 | 43,090 | 6,644 | 54,727 |
| At March 31, 2012 | **2,452** | – | – | **2,452** |

The fair values of the investment properties on March 31, 2012 are estimated at $18.3 million (March 31, 2011 – $93.2 million; April 1, 2010 – $107.9 million).

The fair value of CLC's investment properties was estimated by an outside consultant based on their market value. The outside consultant is an accredited independent valuator with a recognized and relevant professional qualification and with recent experience in the location and category of the investment property being valued.

In determining market value, the income and direct comparison approaches were used. The income approach capitalizes net annual revenues or discounts forecasted net revenues to their present value after considering future rental income streams, anticipated operating costs as well as appropriate capitalization and discount rates. The direct comparison approach references market evidence derived from transactions involving similar properties.

## 8. INVENTORIES

CLC carries its inventories at lower of cost and net realizable value and are classified as follows:

| | March 31, 2012 | March 31, 2011 | April 1, 2010 |
|---|---|---|---|
| Properties held for future development or sale (PDS) | **$ 30,410** | $ 29,347 | $ 16,889 |
| Properties under development (PUD) | **165,136** | 168,405 | 167,237 |
| Land servicing | **149,083** | 152,574 | 151,350 |
| Construction | **16,053** | 15,831 | 15,887 |
| Completed properties held for sale | **36,466** | 49,282 | 51,407 |
| Land | **36,466** | 41,735 | 43,227 |
| Construction | **–** | 7,547 | 8,180 |
| Total Property Inventories | **$ 232,012** | $ 247,034 | $ 235,533 |
| **Total Current** | | | |
| Completed Properties Held for Sale (CPS) | **$ 36,466** | $ 49,282 | $ 51,407 |
| Properties Under Development (PUD) | **165,136** | 168,405 | 167,237 |
| | **201,602** | 217,687 | 218,644 |
| **Total Non-current** | | | |
| Properties Held for Future Development or Sale (PDS) | **30,410** | 29,347 | 16,889 |
| Total Property Inventories | **$ 232,012** | $ 247,034 | $ 235,533 |

On March 31, 2012, the Franklin Crossing property in Moncton, New Brunswick was written down by $0.9 million. The latest project proforma analysis indicates that based on current market conditions in this particular location, the sales revenues expected to be realized from the property are $0.9 million less than cost. There were no write-downs for any properties in year 2011 nor any reversal of write-downs recognized for both years 2012 and 2011.

Inventories written off against cost of sales total $44.1 million (March 31, 2011 – $65.1 million).

At March 31, 2012, the total inventories that are expected to be recovered from sale of the properties by March 31, 2013 are projected to be $46.1 million; and the amounts expected to be recovered after March 31, 2013 are $185.9 million.

## 9. LONG-TERM RECEIVABLE

Long-term receivables consist of the following:

| | March 31, 2012 | March 31, 2011 | April 1, 2010 |
|---|---|---|---|
| Mortgages and secured notes (a) | **$ 14,070** | $ 18,190 | $ 2,085 |
| Assignment of rents (b) | **1,336** | 2,214 | 2,984 |
| Other long-term receivable (c) | **–** | 586 | 720 |
| | **$ 15,406** | $ 20,990 | $ 5,789 |

a) Mortgages and secured notes receivable bear interest at a fixed rate at closing, yielding a weighted average rate of 4.73% (March 31, 2011 – 5.11%) and are receivable within four years.

| | | |
|---|---|---|
| Current portion | | $ 3,440 |
| Non-current portion | | 10,630 |
| | | $ 14,070 |
| Years ending March 31 | 2013 | $ 3,440 |
| | 2014 | – |
| | 2015 | – |
| | 2016 | 10,630 |

b) CLC has a receivable under an assignment agreement in respect of rents receivable, which entitles it to receive rental income until April 30, 2013. The future stream of cash flows is originally discounted at a fixed interest rate of 11.38%. The receipts are estimated to be as follows:

| | | |
|---|---|---|
| Years ending March 31 | 2013 | $ 1,002 |
| | 2014 | 334 |
| | | $ 1,336 |

c) Other long-term receivable represents a leasehold improvement loan to a tenant at the office tower at 277 Front Street West. This receivable was extinguished when the property was sold on September 14, 2011.

## 10. CASH AND CASH EQUIVALENTS

| | March 31, 2012 | March 31, 2011 | April 1, 2010 |
|---|---|---|---|
| Cash | **$ 3,428** | $ 3,899 | $ 39,696 |
| Cash equivalents | **54,000** | 25,000 | – |
| | **$ 57,428** | $ 28,899 | $ 39,696 |

## 11. SHORT-TERM INVESTMENTS

Short-term investments include a $50 million term deposit that is maturing in March 2013. The deposit is held by a major Canadian chartered bank; also included is a cash deposit of $20.8 million held by a major chartered bank as collateral for CLC's letters of credit.

## 12. TRADE AND OTHER RECEIVABLES

Trade and other receivables are comprised of the following:

| | March 31, 2012 | March 31, 2011 | April 1, 2010 |
|---|---|---|---|
| Prepaids | **$ 1,134** | $ 1,933 | $ 2,461 |
| Rents and other receivables | **7,067** | 9,438 | 18,617 |
| Restricted cash (a) | **8** | 962 | 806 |
| Inventories | | | |
| CN Tower | **1,021** | 1,048 | 948 |
| InterContinental Hotel | **–** | 1,417 | 1,637 |
| | **1,021** | 2,465 | 2,585 |
| Total trade and other receivables | **$ 9,230** | $ 14,798 | $ 24,469 |
| Current | **$ 8,353** | $ 14,798 | $ 23,840 |
| Non-current | **877** | – | 629 |
| | **$ 9,230** | $ 14,798 | $ 24,469 |

a) Restricted cash represents holdback money owing for the Chilliwack projects. The balance is held in a joint account between CLC and the project contractor.

## 13. MORTGAGE BOND PAYABLE

The original amount issued of First Mortgage Bond, Series A, was $47 million. Maturity is in January 2014 with semi-annual principal and interest payments at a fixed rate of 5.37%.

The CN Tower has been pledged as collateral. The carrying value of the pledged properties as of March 31, 2012 was $89.3 million (March 31, 2011 – $89.9 million; April 1, 2010 – $92.9 million). The mortgage bond payable has a maturity schedule as follows:

| | | |
|---|---|---|
| Years ending March 31 | 2013 | $ 5,593 |
| | 2014 | 5,897 |
| | | $ 11,490 |
| Less: Net unamortized deferred financing | | 71 |
| | | $ 11,419 |

Interest is payable at an annual effective rate of 5.89%. Interest incurred on mortgage bond payable amounted to $0.8 million for the year ended March 31, 2012 (March 31, 2011 – $1.1 million).

CLC has the right to redeem the Series A Bond at any time upon payment of a specified redemption price equal to the greater of the Canada Yield Price and par, together, in each case, with accrued and unpaid interest up to but excluding the date fixed for redemption. The only financial covenant required for the bond is a ratio of 3:1 between shareholder's equity and secured indebtedness. CLC is in compliance with this covenant.

## 14. TERM LOANS

The $94.4 million net of financing fees balance of term loans at March 31, 2011 (April 1, 2010 – $124.1 million) used to finance the acquisition of the office tower at 277 Front Street West and the InterContinental Hotel at 225 Front Street West was paid off on September 14, 2011 when the MTCC Complex was sold.

On March 31, 2012, CLC's $70 million operating line of credit with a major Canadian chartered bank was not renewed. The letters of credit amounting to $20.8 million that were secured by this operating line of credit were collateralized with a cash deposit. This cash deposit is held by a major Canadian chartered bank and is included in the Short-term investments line item in the Consolidated Statements of Financial Position. Since there is no immediate need for an operating line of credit, CLC will revisit the need of an operating line of credit once its future cash requirement needs have been determined.

## 15. NOTES PAYABLE

The notes payable were issued in consideration of the acquisition of real estate properties and are due to the government. These notes are repayable on the earlier of their due dates (2012 to 2024) or the dates on which net proceeds become available from the sale by CLC of the properties in respect of which the notes were issued. All notes are non-interest bearing. For accounting purposes, the face value of the notes payable are discounted and recorded at their fair market value considering the estimated timing of note repayments, which are not fixed, as well as the estimated incremental corporate fixed interest rate when the notes are issued. The imputed interest is then accrued and capitalized to inventories or expensed as appropriate, on a constant yield basis at a weighted average rate of 2.86% (March 31, 2011 – 6.35%).

During the period, interest capitalized was $1.7 million (March 31, 2011 – $2.4 million) and the interest expensed was $0.5 million (March 31, 2011 – $nil). Based on the anticipated timing of the sale of the real estate properties, principal repayments are estimated to be as follows:

| | | |
|---|---|---|
| Years ending March 31 | 2013 | $ 4,500 |
| | 2014 | 9,200 |
| | 2015 | – |
| | 2016 | 6,000 |
| | 2017 | 8,324 |
| Subsequent years | | 45,421 |
| Subtotal | | $ 73,445 |
| Less: amounts representing imputed interest | | 18,932 |
| | | $ 54,513 |

## 16. TRADE AND OTHER PAYABLES

a) Capital commitments for servicing requirements and other development costs at March 31, 2012 total $16.3 million (March 31, 2011 – $19.3 million; April 1, 2010 – $13.3 million).

b) The components of the corporation's trade and other payables are as follows:

| | March 31, 2012 | March 31, 2011 | April 1, 2010 |
|---|---|---|---|
| Accounts payable | **$ 12,460** | $ 16,878 | $ 16,260 |
| Finance lease | **58** | 52 | 93 |
| | **$ 12,518** | $ 16,930 | $ 16,353 |
| Current | **$ 12,493** | $ 16,911 | $ 16,301 |
| Non-current | **25** | 19 | 52 |
| | **$ 12,518** | $ 16,930 | $ 16,353 |

## 17. PROVISIONS

Provisions are recognized when the corporation has a present obligation as a result of a past event and it is probable that the corporation will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period.

Included in provisions are the following:

- estimated litigation costs for $1.2 million relating to three claims or possible claims against the corporation. There is uncertainty regarding the amount or expected timing of any resulting outflows.
- severance and restructuring costs for $2.2 million relating to employee termination benefits. Estimated costs were based on the terms of the termination agreements. The restructuring payments are expected to be completed by January 2014.
- servicing costs relating to sold properties in the amount of $1.7 million. Of this amount, $1.0 million was provided to complete servicing work for a sold property in Ontario. The costs are estimated to be spent over the next three years. The remainder of the provision relates to estimated costs to complete servicing costs for other sold properties. The amounts provided for are based on management's best estimate, taking into consideration the nature of the work to be performed, the time required to complete the work, past experience, market, development and construction risks.
- a guarantee of $0.6 million relating to rental payments to be made by a former tenant of the corporation. There is uncertainty in the amount and timing of those rental payments.
- potential interest expense of $1.3 million associated with the transition to IFRS.

| | Legal | Restructuring | Cost to Complete | Others | Total |
|---|---|---|---|---|---|
| Balance at April 1, 2010 | $ 978 | $ 30 | $ 3,530 | $ 1,000 | $ 5,538 |
| Provisions added during the period | – | – | 601 | – | 601 |
| Provisions applied during the period | (49) | (4) | (1,268) | (943) | (2,264) |
| Provisions reversed during the period | – | – | (635) | – | (635) |
| Balance at March 31, 2011 | $ 929 | $ 26 | $ 2,228 | $ 57 | $ 3,240 |
| Provisions added during the period | $ 300 | $ 3,259 | $ 414 | $ 2,017 | $ 5,990 |
| Provisions applied during the period | (15) | (1,061) | (753) | (122) | (1,951) |
| Provisions reversed during the period | – | – | (186) | (57) | (243) |
| Balance at March 31, 2012 | **$ 1,214** | **$ 2,224** | **$ 1,703** | **$ 1,895** | **$ 7,036** |

### Contingencies

As at March 31, 2012, the corporation was involved in claims and proceedings that arise from time to time in the ordinary course of business, including actions with respect to contracts, construction liens, Aboriginal title claims, employment and environmental matters. Based on external legal advice and the information currently available to the corporation, management believes that the resolution of these matters and any liability arising therefrom will not have a significant adverse effect on these consolidated financial statements. However, these matters are subject to inherent uncertainties and their outcome is difficult to predict; therefore, management's view of these matters may change in the future.

## 18. SHAREHOLDER'S EQUITY

### a) Capital Stock

CLCL is authorized to issue three shares, which shall be transferred only to a person approved by the Minister designated as the appropriate Minister for CLCL (Minister). The current Minister is the Minister of Public Works and Government Services. The three authorized shares have been issued and are held in trust for Her Majesty in right of Canada by the Minister. Nominal value has been ascribed to the three issued shares of CLCL.

### b) Contributed Surplus

Contributed surplus is comprised of the net assets of $249.6 million acquired from the Minister of Transport less $104.5 million transferred to capital stock. Subsequently, CLC's capital stock was reduced by this amount through payments to the shareholder in accordance with the *Canada Business Corporations Act* during the period 1996 to 2000.

### c) Accumulated Other Comprehensive (Loss)

Losses on derivative designated as cash flow hedge are recognized in accumulated other comprehensive income. During the year ended March 31, 2012, the cash flow hedge was settled as the interest rate swap related to the term loans was paid on disposal of the MTCC Complex (see note 5).

## 19. OPERATING LEASES

### Leases as Lessee

Non-cancellable operating lease rentals are payable as follows:

| | March 31, 2012 | March 31, 2011 | April 1, 2010 |
|---|---|---|---|
| Less than 1 year | **$ 546** | $ 728 | $ 670 |
| Between 1 and 5 years | **1,626** | 2,212 | 2,692 |
| More than 5 years | **42** | 125 | 207 |
| | **$ 2,214** | $ 3,065 | $ 3,569 |

The corporation has operating lease obligations for office space, computer hardware and other equipment. The leases typically run for a period of 1 to 15 years with an option to renew the lease after that date.

During the year ended March 31, 2012, an amount of $0.7 million was recognized as an expense in the Consolidated Statements of Comprehensive Income in respect of operating leases (March 31, 2011 – $0.7 million).

### Leases as Lessor

CLC leases out its investment properties, certain inventories and property, plant and equipment under operating leases generally with lease terms between less than 1 year to 46 years. Some leases have renewal options with one lease having nine 10-year renewal options.

The future minimum lease payments under non-cancellable leases are as follows:

| | March 31, 2012 | March 31, 2011 | April 1, 2010 |
|---|---|---|---|
| Less than 1 year | **$ 8,540** | $ 14,902 | $ 14,300 |
| Between 1 and 5 years | **17,746** | 35,050 | 51,480 |
| More than 5 years | **11,315** | 15,211 | 17,900 |
| | **$ 37,601** | $ 65,163 | $ 83,680 |

During the year ended March 31, 2012, $15.3 million was recognized as rental income in the Consolidated Statements of Comprehensive Income (March 31, 2011 – $17.2 million).

## 20. INCOME TAXES

| | 2012 | 2011 |
|---|---|---|
| Income Tax Expense | | |
| Deferred tax expense | $ (8,981) | $ 2,734 |
| Current income tax expense | 41,103 | 10,025 |
| Total Tax Expense | $ 32,122 | $ 12,759 |
| Reconciliation of effective tax rate | | |
| Profit excluding tax | 114,177 | 45,830 |
| Domestic tax rate | 26.85% | 28.80% |
| Tax using the domestic tax rate | $ 30,657 | $ 13,199 |
| Permanent differences | | |
| Non-deductible expenses | 50 | (1,180) |
| Change in tax rate | (1,148) | 958 |
| Under/(Over) provided in prior year | 2,090 | 22 |
| Reversal of the prior year's OCI | 122 | – |
| Other adjustments | 351 | (240) |
| Total Tax Expense | $ 32,122 | $ 12,759 |

| | 2012 | 2011 |
|---|---|---|
| **Current tax expense** | | |
| Tax recognized in profit or loss | | |
| Current year | $ 32,654 | $ 7,975 |
| Adjustment for prior year | 2,090 | 22 |
| Total current tax expense | $ 34,744 | $ 7,997 |
| **Deferred tax expense** | | |
| Origination and reversal of temporary difference | (10,516) | 2,348 |
| Reduction in tax rate | (1,148) | 959 |
| Total deferred tax expenses | (11,664) | 3,307 |
| Tax expense excluding tax on sale of discontinued operations | 23,080 | 11,304 |
| Tax expense from continued operations | 23,080 | 11,304 |
| Tax expense from discontinued operations (excluding gain on sale) | (174) | 1,455 |
| | 22,906 | 12,759 |
| Tax on gain on sale of discontinued operations | 9,216 | – |
| Total tax expense | $ 32,122 | $ 12,759 |

## Tax recognized in other comprehensive income

| | 2012 | | | 2011 | | |
|---|---|---|---|---|---|---|
| | Before Tax | Expense (Benefit) | Net of Tax | Before Tax | Expense (Benefit) | Net of Tax |
| Net value loss on cash flow hedge | $ (455) | $ (133) | $ (322) | $ 455 | $ 133 | $ 322 |
| | $ (455) | $ (133) | $ (322) | $ 455 | $ 133 | $ 322 |

## Recognized deferred tax assets and liabilities

| | Assets | | Liabilities | | Net | |
|---|---|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| Investment properties | **$ 3,366** | $ 4,291 | **$ –** | $ – | **$ 3,366** | $ 4,291 |
| Inventory | **1,199** | – | **–** | (10,677) | **1,199** | (10,677) |
| Property, plant and equipment | **–** | 2,427 | **(854)** | – | **(854)** | 2,427 |
| Notes payable | **–** | – | **(4,774)** | (5,829) | **(4,774)** | (5,829) |
| Trade and other payables | **110** | 97 | **–** | – | **110** | 97 |
| Other items | **–** | – | **(642)** | (886) | **(642)** | (886) |
| | **$ 4,675** | $ 6,815 | **$ (6,270)** | $ (17,392) | **$ (1,595)** | $ (10,577) |

| | Balance April 1, 2011 | Recognized in Profit or Loss | Recognized Directly in Equity | Balance March 31, 2012 |
|---|---|---|---|---|
| Investment properties | $ 4,291 | $ (926) | $ – | **$ 3,365** |
| Inventory | (10,677) | 11,876 | – | **1,199** |
| Property, plant and equipment | 2,427 | (3,280) | – | **(853)** |
| Notes payable | (5,829) | 1,055 | – | **(4,774)** |
| Accounts payable and accrued liabilities | 97 | 13 | – | **110** |
| Other items | (886) | 244 | – | **(642)** |
| Total tax assets/(liabilities) | $ (10,577) | $ 8,982 | $ – | **$ (1,595)** |

| | Balance April 1, 2010 | Recognized in Profit or Loss | Recognized Directly in Equity | Balance March 31, 2011 |
|---|---|---|---|---|
| Investment properties | $ 423 | $ (377) | $ 4,245 | $ 4,291 |
| Inventory | 449 | (348) | (10,778) | (10,677) |
| Property, plant and equipment | (1,917) | 4,258 | 86 | 2,427 |
| Notes payable | (1,107) | (4,722) | – | (5,829) |
| Accounts payable and accrued liabilities | 455 | (358) | – | 97 |
| Other items | 302 | (1,188) | – | (886) |
| Total tax assets/(liabilities) | $ (1,395) | $ (2,734) | $ (6,447) | $ (10,577) |

## 21. CONSOLIDATED STATEMENTS OF CASH FLOWS – SUPPLEMENTAL INFORMATION

Property acquisitions (inventories) and additions which were satisfied by the issuance of notes payable in the amount of $nil (March 31, 2011 – $33.0 million) have been excluded from the financing and investing activities in the Consolidated Statements of Cash Flows.

Non-cash increase in properties (inventories) and notes payable of $1.7 million (March 31, 2011 – $2.4 million) for capitalization of interest have been excluded from the financing and investing activities in the Consolidated Statements of Cash Flows.

Property disposals (inventories) satisfied by the issuance of mortgages and secured notes by CLC or the assumption of debt by the purchasers in the amount of $0.7 million (March 31, 2011 – $16.3 million) have been excluded from the operating, financing and investing activities in the Consolidated Statements of Cash Flows.

During the year ended March 31, 2012, interest received totalled $1.3 million (March 31, 2011 – $0.3 million), interest paid amounted to $2.7 million (March 31, 2011 – $7.7 million) and income taxes paid totalled $42.5 million (March 31, 2011 – $12.2 million).

## 22. RELATED PARTY TRANSACTIONS AND BALANCES

CLC is wholly owned by the Government of Canada and is under common control with other governmental agencies and departments, and Crown corporations. CLC enters into transactions with these entities in the normal course of business.

During the year ended March 31, 2012, the corporation paid dividends of $20.8 million to its shareholder, the Government of Canada (March 31, 2011 – $8.5 million).

The following disclosures represent the significant transactions with related parties:

i) The notes payable to the government are non-interest bearing (please refer to Note 15 – Notes Payable) and are repayable on the earlier of their due dates or the dates on which net proceeds become available from the sale by CLC of the properties in respect of which the notes were issued.

ii) During the year, no properties were transferred from the Government of Canada. During the year ended March 31, 2011, CLC acquired an interest in real estate properties from federal government departments for a purchase price of $33.0 million. Consideration for these assets was the issuance of notes payable of $33.0 million. These included CFB Rockcliffe, Ottawa and Rebecca Street, Oakville acquired from the Department of Defence for $13.5 million and $8.3 million respectively, RCMP Southern Alberta District acquired from the Royal Canadian Mounted Police for $7.4 million, Sam Livingston building acquired from Public Works and Government Services for $3.3 million and La Prairie acquired from Transport Canada for $0.4 million.

Also acquired in the fiscal year ended March 31, 2011 was a property in Port Credit, Mississauga transferred from Department of Fisheries and Oceans for $1, subject to an environment remediation adjustment.

During the year ended March 31, 2011, CLC entered into a Quebec Term Sale agreement with Transport Canada which grants CLC early use of the properties referred to as Pointe du Moulin, Lachine Canal and Rue des Irlandais in Montreal. The initial transaction was booked at a value of $1 each, subject to a review of the fair market value and environmental considerations.

iii) CLC received management fees of $0.1 million from the Department of Defence for managing the operations of Canadian Forces Station in Pleasantville, St. John's, Newfoundland (March 31, 2011 – $0.1 million). Management fees are charged at 5% of operating and maintenance costs incurred at the leased premises over the term of the lease.

iv) CLC also received various rental and other revenues from federal agencies and departments of $9 million (March 31, 2011 – $13 million, of which $3.4 million are sale of real estate to Public Works and Government Services). The $9 million includes rents from leases with the Department of Defence, Public Works and Government Services, and a cash sale of real estate to the Royal Canadian Mounted Police for $2.1 million.

v) The transactions described above resulted in a net receivable from federal agencies and departments of $0.9 million (March 31, 2011 – $1.3 million; April 1, 2010 – $1.3 million).

vi) During the year, CLC entered into a land exchange with Parks Canada for the Les Bassins development project in Montreal. The lots exchanged, being all green space are equal and have been transacted at an appraised value ($0.2 million).

vii) Key management personnel includes CLC's senior management team and the board of directors. For the year ended March 31, 2012, short-term employee benefits total $3.1 million (March 31, 2011 – $3.1 million), post-employment benefits total $0.1 million (March 31, 2011 – $0.1 million) and termination benefits total $2.0 million (March 31, 2011 – $nil). There were no amounts paid to key management personnel relating to other long-term benefits (March 31, 2011 – $nil).

## 23. FINANCIAL INSTRUMENTS

All financial instruments measured at fair value must be classified in fair value hierarchy levels, which are as follows:

**Level 1 (L1)** – Financial instruments are considered Level 1 when valuation can be based on quoted prices in active markets for identical assets or liabilities.

**Level 2 (L2)** – Financial instruments are considered Level 2 when valued using quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or models using inputs that are observable.

**Level 3 (L3)** – Financial instruments are considered Level 3 when their values are determined using pricing models, discounted cash flow methodologies or similar techniques and at least one significant model assumption or input is unobservable.

The carrying values and fair values of the corporation's financial instruments are summarized in the following table:

Cash and cash equivalents, short-term investments, trade and other receivables, trade and other payables and prepaid rent, deposits and others approximate their carrying amounts due to their short-term maturities.

CLC used an interest rate swap derivative to manage interest rate risk on a portion of its variable debt. This derivative was designated as a cash flow hedge with a notional amount of $50 million and a fixed rate of 2.47% maturing on April 1, 2013. At March 31, 2012 and March 31, 2011, the amount of hedge ineffectiveness recorded in interest expense in connection with the corporation's interest rate hedging activities was insignificant.

On September 14, 2011, the corporation sold the MTCC Complex and retired the term loans of $94 million associated with the Complex. The cash flow hedge portion of the term loan of $50 million was also retired.

There hasn't been any change in valuation technique for financial instruments during the year.

| Classification | Subsequent Measurement | Level | March 31, 2012 Fair Value | March 31, 2012 Carrying Value | March 31, 2011 Fair Value | March 31, 2011 Carrying Value | April 1, 2010 Fair Value | April 1, 2010 Carrying Value |
|---|---|---|---|---|---|---|---|---|
| **Financial Assets** | | | | | | | | |
| Long-term receivable | Amortized cost | L2 | **$ 16,570** | **$ 15,406** | $ 20,915 | $ 20,990 | $ 5,704 | $ 5,789 |
| **Financial Liabilities** | | | | | | | | |
| Mortgage bond payable | Amortized cost | L2 | **11,905** | **11,419** | 17,278 | 16,650 | 21,950 | 21,587 |
| Term loans | Amortized cost | L1 | **–** | **–** | 94,372 | 94,372 | 143,123 | 143,123 |
| Notes payable | Amortized cost | L2 | **47,562** | **54,513** | 67,287 | 69,804 | 37,958 | 46,320 |
| **Derivatives Used for Hedging** | | | | | | | | |
| Derivatives' liability | Fair value | L2 | **–** | **–** | 455 | 457 | – | – |

## 24. FINANCIAL RISK MANAGEMENT

### a) Liquidity Risk

Liquidity risk is the risk that CLC will not be able to meet its financial obligations as they become due.

CLC manages its liquidity risk by forecasting and managing cash flows from operations and anticipating capital expenditures and financing activities. CLC also manages its cash flow by maintaining sufficient cash balances to meet current obligations and investing surplus cash in low risk bank investments.

CLC sold its interest in the office tower on 227 Front Street West and the hotel facility at 225 Front Street West and thus discharged the $95 million (March 31, 2011 – $95 million, April 1, 2010 – $125 million) term financing loan in September 2011 (see note 14).

CLC has Notes Payable which is owed to the shareholder and under the agreement, the notes are not due until positive cash flows are achieved from the properties by which they are secured (see note 15).

CLC has a mortgage bond payable of $11.4 million at March 31, 2012 (March 31, 2011 – $16.7 million; April 1, 2010 – $21.6 million) with semi-annual payments on January 1 and July 1 for $3.1 million. The last payment is on January 1, 2014 (see note 13).

### b) Market Risk

Market risk is the risk that the fair values of financial instruments will fluctuate because of changes in market prices.

CLC has little exposure to currency risk. This could have an effect on attractions, food and beverage and other hospitality revenues as a result of a decrease in tourism because of currency fluctuations.

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

CLC is exposed to interest rate risk on its borrowings which exposes CLC to unpredictability in forecasting its cash flow requirements. It minimizes this risk by obtaining long-term fixed interest rate debt on some long-term investments. At present we have no borrowing against line of credit.

Financial assets and financial liabilities that bear interest at fixed rates are subject to fair value interest rate risk. The corporation does not account for its fixed rate debt instruments as held for trading; therefore, a change in interest rates at the reporting date would not affect net income with respect to these fixed rate instruments.

CLC, as of reporting date, has no financial instruments that could impact the net income or equity.

### c) Credit Risk

CLC's credit risk arises from the possibility that tenants or purchasers with vendor take-back mortgages may experience financial difficulty and be unable to pay the amounts owing under their commitments. For Vendor Take Back Mortgages (VTBs), the agreement is secured by a collateral mortgage on the property.

CLC attempts to reduce the risk of credit loss by limiting its exposure to any one tenant or industry and doing credit assessments in respect of new leases or credit transactions. Also, this risk is further mitigated by signing long-term leases with varying lease expirations.

The corporation's receivables are comprised primarily of current balances owing. CLC performs monthly reviews of its receivables and establishes an appropriate provision for doubtful accounts.

On March 31, 2012, the corporation has receivables of $7.1 million (March 31, 2011 – $9.4 million; April 1, 2010 – $18.6 million).

The corporation's cash, including bank deposits and term deposits as well as security deposits, is held with a major financial institution. The corporation does not expect any related counterparties to fail to meet their obligations.

On March 31, 2012, the corporation's cash and cash equivalent balances are $57.4 million (March 31, 2011 – $28.9 million; April 1, 2010 – $39.7 million).

The corporation's maximum exposure to credit risk is limited to the carrying value of each class of financial asset.

On March 31, 2012, CLC has long-term receivables of $13.4 million arising from sales of properties. $13.3 million of these are covered by collateral mortgages and $0.1 million is a promissory note from a municipal government.

CLC has an assignment of rents with a balance of $1.3 million at March 31, 2012 (March 31, 2011 – $2.2 million; April 1, 2010 – $3 million). Default in payment of subject assignment of rents is covered by a guarantee from the lessee.

## 25. CAPITAL MANAGEMENT

The corporation's objective when managing capital is to maintain adequate levels of funding to support its activities.

| | March 31, 2012 | March 31, 2011 | April 1, 2010 |
|---|---|---|---|
| Shareholder's equity | **$ 391,653** | $ 331,336 | $ 307,077 |
| Mortgage bond payable | **11,419** | 16,650 | 21,587 |
| Term loans | **–** | 94,372 | 143,123 |
| Notes payable | **54,513** | 69,804 | 46,320 |
| Cash and cash equivalents | **57,428** | 28,899 | 39,696 |
| Total | **$ 515,013** | $ 541,061 | $ 557,803 |

The corporation is subject to a financial covenant in its credit agreement which is measured on a quarterly basis.

CLC is in full compliance with the financial covenant of the mortgage bond payable.

CLC has Notes Payable which is owed to the shareholder and under the agreement, the notes are not due until positive cash flows are achieved from the properties.

All short-term and long-term borrowings are approved by the Minister of Finance with respect to the amount, interest rate and term, and are included in the corporate plan which must receive Treasury Board approval.

In order to meet its objective, CLC invests all capital that is surplus to its immediate operational needs in highly liquid financial instruments, with original maturities of up to one year, such as bank deposits and money market funds. All are held with major financial institutions.

On March 31, 2012, cash and cash equivalents total $57.4 million. The cash equivalents are invested in term deposits with a Canadian chartered bank with maturities up to 34 days.

CLC's strategy is to satisfy its liquidity needs using cash on hand, cash flows generated from operating activities and provided by financing activities, as well as proceeds from asset sales. Rental revenue, recoveries from tenants, lot sales, attractions and hospitality revenue, interest and other income, available cash balances, draws on corporate credit facilities and refinancing of maturing indebtedness are the corporation' principal sources of capital used to pay operating expenses, dividends, debt service and recurring capital and leasing costs in its commercial property, attractions & hospitality and residential development businesses. CLC plans to meet its short-term liquidity needs with revenue along with proceeds from financing activities.

The principal liquidity needs for periods beyond the next twelve months are for scheduled debt maturities, recurring and non-recurring capital expenditures, development costs and potential property acquisitions. CLC's strategy is to meet these needs with one or more of the following:

- cash flows from operations;
- proceeds from sales of assets;
- credit facilities and refinancing opportunities

## 26. ADDITIONAL INFORMATION

CLC's major areas of business activities are the management, development and sale of real estate, and the entertainment and hospitality operations of the CN Tower and the InterContinental Toronto Centre.

Additional information on these activities is as follows:

| | March 31, 2012 | | | |
|---|---|---|---|---|
| | Real Estate | CN Tower | Hotel | Total |
| Sales | $ 207,683 | $ 58,867 | $ 139,775 | $ 406,325 |
| Depreciation | 1,908 | 7,108 | 2,603 | 11,619 |
| Net income before tax | 69,599 | 9,643 | 33,675 | 112,917 |
| Acquisition and expenditures on properties | 35,457 | 6,532 | 5,817 | 47,806 |
| Total assets | 392,814 | 98,242 | 202 | 491,258 |
| Other liabilities | 29,708 | 3,910 | 55 | 33,673 |
| Mortgage bond, notes payable and term loans | 54,513 | 11,419 | – | 65,932 |

| | March 31, 2011 | | | |
|---|---|---|---|---|
| | Real Estate | CN Tower | Hotel | Total |
| Sales | $ 138,500 | $ 54,832 | $ 42,375 | $ 235,707 |
| Depreciation | 4,642 | 6,937 | 6,234 | 17,813 |
| Net income before tax | 32,484 | 8,303 | 5,052 | 45,839 |
| Acquisition and expenditures on properties | 66,883 | 3,945 | 2,319 | 73,147 |
| Total assets | 370,859 | 92,365 | 93,299 | 556,523 |
| Other liabilities | 36,385 | 3,397 | 4,579 | 44,361 |
| Mortgage bond, notes payable and term loans | 106,401 | 16,650 | 57,775 | 180,826 |

The numbers presented above do not agree to the consolidated financial statements because the Hotel activities and balances are classified as discontinued operations on the Consolidated Statements of Comprehensive Income.

Employee benefits expense for the year total $33 million (March 31, 2011 – $29 million).

## 27. PENSION PLAN

CLC has a defined contribution pension plan covering all of its full-time employees and certain part-time employees in accordance with the plan. Employees are eligible to join either at the date of employment or after a year of employment. The amount of the current service cost for the year charged to expense for this plan was $0.9 million for the period ended March 31, 2012 (March 31, 2011 – $1.1 million).

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CANADA LANDS COMPANY LIMITED
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